# Major Project Report on

# "THE GST IMPACT ASSESSMENT ON EASE OF DOING BUSINESS IN INDIA".


Submitted By:

Nalini Kanta Das
DTU/2K16/EMBA/519
Year : 2016-18


Under the Guidance of :
Dr Archana Singh
Asst Prof. DSM,DTU

## DELHI SCHOOL OF MANAGEMENT

**Delhi Technological University**

**Bawana Road Delhi 110042**

**May 2018**

**DECLARATION**

I Nalini Kanta Das , student of EMBA 2016-18 of Delhi School of Management , Delhi Technological University , hereby declare that the project titled "THE GST IMPACT ASSESSMENT ON EASE OF DOING BUSINESS IN INDIA" submitted as a project for 4th Semester, EMBA Course , is my original work. This project has been carried out under the able guidance and supervision of Dr Archana Singh, DSM, DTU .

I further declare that I have not previously submitted the project report to any other institute/university for any Degree/Diploma.

"The candidate/ researcher is liable for infringement/violation of copy-right and unethical plagiarism. The supervisor is liability is restricted till signing of the declaration which she has signed on the basis of trust envisaged on the researcher".

Signature of Student

Nalini Kanta Das

Place : Delhi

Date : 20th May, 2018

# CERTIFICATE

This is to certify that the project titled "THE GST IMPACT ASSESSMENT ON EASE OF DOING BUSINESS IN INDIA" is a bona fide work carried out by Mr Nalini Kanta Das, student of EMBA (2016-18), Delhi School of Management, under the aegis of Delhi Technological University, in partial fulfillment of the requirements for the award of the Degree of Master of Business Administration and that the project has not formed the basis for the award previously for any degree, diploma, fellowship or any other similar title as confirmed by the student and to the best of my knowledge.

Signature of Guide

Dr Archana Singh
Asst Professor, DSM,DTU

Place : Delhi

Date : 20th May, 2018

## ACKNOWLEDGEMENT

I am thankful and express my profound indebtedness to my guide Dr Archana Singh, Delhi School of Management, DTU for her genuine concern, invaluable guidance and constant encouragement during the entire duration of the project. I extend my gratitude towards Delhi School of Management, DTU, for giving me this opportunity. I am also thankful to all my faculty members of Delhi School of Management, DTU, New Delhi.

Last but not least , I express my gratitude to all of my fellow students and batch mates, who directly/indirectly help me to complete this project report.



Nalini Kanta Das

EMBA (2016-18)
Delhi School Of Management.
Delhi Technical University

# Table Of Content

**ABSTRACT**:

The Project objective is to do an Impact Assessment of GST(Goods and Services Tax ) on ease of doing business in India. A holistic assessment of GST impact on the nation's economy as well as impact on different business functions and activities. Such as such as Accounting ,IT, Supply chains, Change management , HR training, etc. So the objectives in brief are : -

- To analyze the GST impact on Core Sectors of the economy .
- To analyze the GST impact on Ease of doing Business in India.
- To analyze the GST impact on World Bank ease of business ranking for India.

GST impact study' is designed to enable businesses to understand how GST is going to impact their operating cost, profitability, working capital requirement, IT reporting and other elements and would draw the attention of management on exactly how the GST would impact their particular nature of business

The survey attempts to find out the GST impact on five core sectors such as Manufacturing, Services, Logistics and Supply chain, and Ecommerce companies. and impact on MNC and on Export /import. The study also analyze the GST impact on ease of business and ease of living.

The world bank ease of doing business ranking parameters such as (Getting credit, Trading across borders, Getting Electricity, Paying Tax, Transparency in business) , are used to evaluate how GST affect each of these parameters and subsequently the ease of business ranking for India.

Primary data are collected through email response to structure questionnaires sent to various professionals consisting GST Practitioners mostly CAs, ICWAs and also Pointed questionnaires sent to what Sapp groups through Google form and some informal discussions with general public. Secondary data was collected from various internet sites, GST council's database, Big 4 Auditors GST review and various articles ,Journals and newspaper .

Respondents for this study are mainly GST Practitioners , Tax Professionals working in different sectors and industries and some section of general public . I have used convenient and Judgmental sampling method to save time and cost.

The findings suggest that Post GST the Economy will move towards more formalizations, short term business disruptions, strengthening of federal structure , Tax payer friendly eco system, Ease of business and Ease of Compliance than the previous Tax regime. The other finding is that the authority should focus on GST artificial intelligence and Data analytics for proper trend analysis .

# Executive Summary

- **GST is truly "One Nation one Tax"**

Dual structure with equal power to center and state to levy tax on all transaction .A single destination based consumption tax subsuming multiple taxes, having common and consistent tax structure across India. Over 95 % of the respondents among the GST professionals and Industries respondents strongly agree that GST certainly strengthen India's Federal Structure.

- **GST impact on Cost of Living more intense.**

The survey examines the price level of essential household goods , both pre and post GST and the likely GST impact on these goods which are directly related to People's cost of living. Over 60 % of respondents among general public agree that GST will not have any impact on their cost of living in near future, but over 85% of respondent among industry and other professionals agree that cost of living will bound to improve in the medium to long term. The conflict of opinion is clearly visible between various respondents among general publics and GST professionals.

- **GST improve the Ease of doing business ranking for India**

GST would certainly bring huge operational efficiency and boosts the tax revenue by increased compliance which ultimately help the ease of business in India .Over 95 % , 80% among industries and GST practitioners respectively agree that GST will surely improve its ease of business ranking.

- **GST bring Transparency to the Indian economy.**

By abolishing multiple taxation system and levying a single consolidated tax, the things shall be more clear and transparent with no scope of confusion and no tax to be paid at different stages at different times. Hence GST shall bring in more transparency to the Economy.
Over 90 % of respondents agree that the GST regime will bring more transparency than the previous tax regime due to elimination of Cascading effect and use of greater technology .

- **GST will have significant impact on "Make in India" concept.**

GST will help to create a unified common national market for India, giving a boost to Foreign investment and "Make in India" campaign. It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth. Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a "Manufacturing hub".

- **Ease of Compliance with online filing and eliminating physical interaction**

Survey point out that , above 90 % of respondents are strongly agreed that GST regime will ensure a ease of compliance than the earlier tax regime if the various loopholes ( such as GST computation, Periodical return, Statutory form etc.) are addressed.

- **Business Decisions based on Commercial parameters, rather than Tax Considerations.**

Since there should be uniform rate of taxes across the states under GST regime, So Business decisions will be based on commercial parameters rather than on Tax considerations.

- **Widening of Tax base with integration of all Taxes and Interlinking of Transactions.**

The country's tax base is set to widen significantly as a result of implementing Goods and Services Tax (GST), bringing more tax receipts to the exchequer, which will also benefit states. Peoples surveyed agree that GST will have positive effect on Incremental Assesses.

- **Seamless credit Regime eliminating cascading effect of Tax.**

GST helps the removal of the 'cascading tax effect,' which means eliminating 'tax on tax.' In earlier regime of indirect tax system, it is noticed that the input credit chain is broken at certain points. For instance, CST (Central Sales Tax) is applicable on interstate trade, but it is otherwise non-creditable. Even a manufacturer is causing the chain to break by charging excise duty on sale to a dealer. But, where is it being credited? Levying tax on tax from production to consumption, leads to a situation wherein a consumer has to bear the load of tax on tax and inflationary prices as a result of it. GST allows for seamless flow of tax credit online, and aims to eliminate this cascading effect of all indirect taxes in the supply chain from manufacturers to retailers, and across state borders.

# LITERATURE REVIEW

GST does not just have impact on taxes, but also on each business unit of a company. It affects every part of business right from financial reporting, accounting, supply chain, technology enablement, contracts redesign and tax compliances.( FICCI industry survey 2018 Report on GST )
GST to create a common market in India with a seamless indirect Tax regime and an excellent enabler for the 'Make in India 'theme. (Getting GST ready a report by Ernst &Young ).

India's Doing Business will not be same again after GST and It will certainly encourage business ranking .( A world bank's "Doing Business report 2018").

Severe impact and implications of GST on whole supply chain process specially logistics . ( Deloitte study on GST Readiness, 2016 ) .

Shifting to new systems will be time-consuming and frazzling. Also, for the employees to get accustomed to the new means will consume some of the crucial time which could have been invested in other important work. ( Anni Gupta , 2017 , GST analysis).

GST will ensure common and consistent tax structure across India as it subsumes multiple taxes. ( KPMG and CII GST study and Analysis,2017 ).

GST will bring a simplified tax regime .( GST Flyers, 2018 , CBEC).

A preliminary analysis of the Goods and Services Tax (GST) data reveals that there has been a 50% increase in the number of indirect taxpayers, besides a large increase in voluntary registrations, especially by small enterprises that buy from large enterprises. It also underlines that the distribution of the GST base among the States is closely linked to the size of their economies, allaying fears of major producing States that the shift to the new system would undermine their tax collections. ( Ministry of Finance, GOI, 2017-2018, Economic Surveys).

The tax on stock transfers will have a moderate to high impact on their business. But of course, the tax on stock transfers would have a sizable impact only on those companies which are present in more than one State and are dealing in 'goods'. ( KPMG , 2016 , Report on GST survey- Industry expectations and perceptions).

Double Taxations is not completely eliminated under GST. (ICAI background materials on GST).

## Methodology

Respondents for this survey are GST Practitioners , Tax professionals ,industry, and General Public .The sampling technique undertaken is convenient and Judgmental sampling method has been used to save time and cost. The survey is done among three groups :

- GST Practitioners include mainly Chartered Accountants, Cost Accountants and Some Legal Counsellor, .
- General Public include Informal discussion /interviews with consumers whose cost of living are likely be impacted post GST .
- Industry respondents includes employed people in various industries who are a stake holder as well as likely to be impacted post GST .belong to various industries such as Automotive, FMCG, Real Estate, IT&ITS, Telecom, Engineering, Finance .

Questionnaires sent through email and Google Forms to GST practitioners and to Industry concern, although the three groups received slightly different subsets of the questions. The size of the available population for each group was different. Responses from general public include informal questionnaires discussion and interviews. The questionnaire is reproduced in the appendix.

### Response Rate & Statistics

The response rate is about 75% . I have approached to almost 120 respondents of various group and received a response from 90 respondents. Up to 20 % of respondents are from a single state but 80% of the respondents are from more than one states. The reason of non- response from 30 are respondent's other priorities as well as paucity of times at surveyor's end for repeated follow up with the respondents.

| **No respondents Approached** | 120 | **Industry to which the respondents belong** | |
|---|---|---|---|
| Response Received | 90 | Manufacturing | 30% |
| General Public | 20 | Trading | 13% |
| GST Practitioners( CA/ICWA) | 40 | Services | 42% |
| Industries | 30 | Multi sectors | 15% |
| Total | 90 | | |

## INTRODUCTION TO GOODS AND SERVICE TAX

Flip around any newspaper or business magazine and news on GST finds it home. It wouldn't be ostentatious to refer Goods & Services Tax as the *Sanjeevani* of the Indian economy. GST, also coined as Good and Simple Tax by the hon'ble Prime Minister during the GST launch session is expected to reform the way of doing business in India. The introduction of Goods and Services Tax on the 1st of July 2017 was a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, the aim was to mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which was estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would have a boosting impact on economic growth. GST, because of its transparent and self-policing character, would be easier to administer.

**Definition of GST:**

**As per Article 366(12A) of Indian constitution** :-**"Goods and services tax"** means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption.

Implementation of GST has been full of challenges due to the federal structure enshrined in our Constitution. The Seventh Schedule of the Constitution delineates division of powers between the centre and the states through three lists —the Union list, the state list and the concurrent list. In the pre-GST era, the states were empowered to levy tax on sale of goods, which was one of their major sources of revenue. Introduction of GST meant that this tax along with many other central and state taxes would get subsumed into GST. Making GST a unitary tax was not acceptable to the states and it would have also meant compromising on the country's federal structure. This challenge has been overcome by having dual GST as it enables the centre and the states to concurrently levy GST.

GST has been conceived as a destination-based tax and the tax accrues to the state where final consumption takes place. It required taxes to move along with the goods and services even during inter-state movement. This has led to a unique integrated GST (IGST) mechanism in India. IGST is levied and collected on supplies in the course of inter-state trade by the centre and is apportioned between the Union and the states based on final consumption and other prescribed principles.

GST being a destination-based tax, many of the industrialized states were concerned that its introduction would lead to loss of revenues. There was also an element of uncertainty about how the new GST regime would play out. The states wanted an assurance from the central government that their revenues would be protected. The centre agreed not only to protect their revenues but also provide for 14% nominal growth every year for a period of five years. In case of revenue shortfall, the states are being compensated through the compensation cess levied on select demerit and luxury goods.

Implementation of the game-changing economic reform impinging on a large number of stakeholders required an agile political body with strong mandate to take quick decisions. The newly created constitutional body, the GST Council, has emerged as a unique institution, where the centre and the states are willing to pool their sovereignty and give fiscal space to each other. The Council, since its formation in September 2016, has worked at a fast pace to take a large number of tax-related and fiscal decisions. It also realised that it would not be possible to take urgent operational matters to the Council and convene full-fledged Council meetings at a short notice. Therefore, it constituted a GST implementation committee (GIC), the decisions of which are implemented with the approval of the Union finance minister and are later placed before the council for information. Also, group of ministers and committee of officers addressed specific issues.

## BENEFITS OF GST:

### Make in India:

- Will help to create a unified common national market for India, giving a boost to Foreign investment and “Make in India” campaign;
- Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;
- Harmonization of laws, procedures and rates of tax;
- It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;
- Ultimately it will help in poverty eradication by generating more employment and more financial resources;
- More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports;
- Improve the overall investment climate in the country which will naturally benefit the development in the states;
- Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-State sales;
- Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production

thereby helping in the growth of the industries. This will create India as a "Manufacturing hub".

## Benefit to Consumers:

- Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and supplier of services;
- It is expected that a relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under a compounding scheme- purchases from such entities will cost less for the consumers;
- Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

## IMPACT ON EASE OF DOING BUSINESS

- Simpler tax regime with fewer exemptions;
- Reduction in multiplicity of taxes that are at present governing our indirect tax system leading to simplification and uniformity;
- Reduction in compliance costs - No multiple record keeping for a variety of taxes- so lesser investment of resources and manpower in maintaining records;
- Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc.;
- All interaction to be through the common GSTN portal- so less public interface between the taxpayer and the tax administration;
- Will improve environment of compliance as all returns to be filed online, input credits to be verified online, encouraging more paper trail of transactions;
- Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system;
- Timelines to be provided for important activities like obtaining registration, refunds, etc;
- Electronic matching of input tax credits all-across India thus making the process more transparent and accountable.

## IMPACT OF GST ON THE MANUFACTURING SECTOR

***GST will significantly improve the competitiveness and performance of India's manufacturing sector.*** The manufacturing sector in India is not only plagued with concerns ranging from decline in exports and infrastructure spending but also with the burden of complying with a complex indirect taxation system. Multiple indirect tax legislations have led to significant compliance and administrative costs, classification and valuation disputes and generally impaired the ease of doing business in this sector. The implementation of goods and services tax (**GST**) is therefore critical and necessary to give a boost to an already flagging sector.

**State incentives/Area based incentives**

Companies have set up units with significant investment outlays based on incentives offered by States under their respective investment promotion policies. At present, States have the flexibility to offer such incentives. However, under the GST regime, such flexibility given to the States is likely to be curtailed to achieve the intended effect of uniformity. Further, the GST Law does not clarify the fate of current incentives. Companies which have based their financial projections around these fiscal incentives may have to reassess their projections.

### Increased working capital

Impact on working capital may be significant for the manufacturing sector. Pre GST, stock transfers are not subject to tax. However, under the GST regime, stock transfers are deemed to be supplies and are subject to GST. Though GST paid at this stage would be available as credit, realization of this GST would only occur when the final supply is concluded. This would likely result in cash flow blockages and therefore companies would have to rethink their supply chain management strategies to minimize this impact on their cash flows.

**Discounts**

The GST Law stipulates that post supply discounts are to be excluded from the transaction value, provided such discounts are known at or before the time of supply of goods and are linked to the invoices for such supply. Companies may need to analyze existing post supply discounts/incentive schemes where the quantum of discount is not known at the supply stage. Example, secondary market incentive schemes, volume based discounts etc.

**MRP valuation**

Currently, various pre-packaged products for retail consumption are subject to excise duty not on the ex-factory transaction value but on a specified percentage of the maximum retail price (**MRP**) printed on the package. The MRP based value (which is usually between 30%-35% of the MRP) is in most cases, much higher than the ex-factory transaction value leading to a higher excise duty liability than would otherwise be the case. This increased excise duty itself, results in a higher MRP, ultimately leading to a higher cost burden for the consumers. Under the GST regime, GST is payable by the manufacturer at the transaction value, and is creditable for all subsequent resellers up to the final consumer. Accordingly, the unnecessary tax burden of the MRP regime will no longer be relevant.

**Reduction of cascading taxes**

Under the present indirect tax regime, the manufacturing sector is able to set-off most input taxes levied in the production value chain. However, Central taxes cannot be set-off against State taxes and vice versa. This often leads to a situation where manufacturers are unable to set off excess credit of central or state levies. Further, central sales tax paid on inter-state procurements is also not creditable and are costs for the company. Another issue faced currently is the cascading of taxes at the post manufacturing stage. Dealers, retailers etc. are subject to taxes on their input side which are not creditable (service tax on input services, excise duty on capital goods). This leads to an increase in the cost of goods, ultimately affecting the competitiveness of Indian manufactured goods vis-à-vis imports. All of the above issues are addressed under the GST Law, which permits tax set offs across the production value-chain, both for goods and services. This will result in a reduction of the cascading effect of taxes and bring down the overall cost of production of goods.

**Reduction of classification disputes**

Pre-GST, due to varying rates of excise duty and VAT on different products, as well as several exemptions provided under excise and VAT legislations, classification disputes are a regular cause for litigation under both central excise and VAT, especially for the manufacturing sector. It is expected that the inception of GST which is based on the principles of a simplified rate structure and minimization of exemptions will significantly reduce disputes regarding classification of products.

The manufacturing sector stands to benefit significantly with the introduction of GST. The overall reduction of cascading effect of taxes, especially on the post-manufacture stage of the supply chain should have a positive effect on the cost of manufactured products in the hands of consumers.

## GST IMPACT ON SERVICE INDUSTRIES

Services sector in India is a rapidly growing sector and significantly contributing to fiscal revenues. As indicated so far, that the standard GST rate would be 18-20%, as compared to the current 15% service tax including cesses then the services viz. IT, telecom, banking, insurance, etc may witness negative impact due to increased cost of services.

## The Positive impact of GST on MNCs:

- **Plunge in Production Cost:**

After GST the cost of production will take a slight dip as now the firms will be free to move and call goods from anywhere around the country without being charged anything extra than just the price of those goods and the cost incurred naturally in moving goods.

- **Economies of Scale:**

After GST the road to consolidated working is wide open as now the companies would want to operate from areas which offer the highest productivity which would create a cluster of companies operating from one place resulting in gains for them as they could enjoy economies of scale.

- **Shrinking Price Difference:**

After GST a lot of small companies those which were free from the tax panoptic on will come in its view and will have to surrender. GST will make the escape harder for companies and will make them pay their share which will make it difficult for them to cut prices based on money saved from these escapes and benefit the multinationals as they'll be somewhat on the same level where prices are concerned with a much broader and bigger reach and bank balance.

- **Locating Productively:**

Companies until now have been deciding on their locations based on tax subsidies and incentives but after GST, finally, they can think beyond tax and factor the real major pointers for an apt location like productivity, efficiency, and commercial viability.

- **Cheaper Import:**

Companies would be able to import goods at a cheaper price after GST as it will streamline the process consolidating the additional custom duties into it. So, imports will be taxed similar to interstate tax at the IGST and can also be claimed for input tax credit.

## Negative impact of GST on MNCs:

- **Because Business don't run on Solicitude:**

While GST would relax most businesses and will give them space to flex a muscle or two it will also saddle some like advisory, consulting, engineering etc with a higher rate and an additional burden. Businesses connected with these businesses will also get affected as their services will get slightly expensive.

- **Do you fall Under Tax Bracket?**

With many sectors lying outside the ambit of GST it really doesn't fix the core issue it was introduced for, the cascading of taxes. With petroleum being one of those beyond its proximity, companies won't be able to claim the tax paid on petroleum products as input tax which deters the road to a tax-on-tax free dream.

- **Chaos**

The dealers would need to register in each and every state they do business in which will result in a chaotic situation as now the companies which have a pan India operation and are currently filing two semi-annual and 12 monthly return will have to file much more depending on the number of states they do transactions in.

- **The Shift:**

Shifting to new systems or an upgraded version of the existing system will be time-consuming and frazzling. Also, for the employees to get accustomed to the new means will consume some of the crucial time which could have been invested in other important work.

## Impact of GST on General Industries:

- Impact on Automotive Industries:
  **Car Segment:** Current levies of Indirect taxes and Cesses on Cars varies from 30% to 45%. If standard rate of 18-20% is declared for small cars as well as 40% for luxury cars, both will be benefited. Moreover, elimination of cascading effect and offset of input tax credit (ITC) at every stage of value chain will reduce the cost. By and large, impact may be positive for car segment of automobile sector.
  • **Commercial Segment:** Reduction in transit time will increase the fleet productivity and speedy delivery of goods. Better availability of vehicles for transport services may lead to increased competition ,nevertheless, change in storage and warehousing patterns may also lead to higher interstate movements of goods, so it may be a mixed bag for truck operators..

- **Impact on Real Estate Industries:**

Sale or transfer of immovable property is outside the purview of GST, however, on procurement of materials for civil construction GST will be applicable and ITC of the same is not admissible. Inadmissibility of ITC may impact negatively. Hopefully, this issue have addressed appropriately GST law.

- **Impact on Transportation Industries:**

Trucks spend only about 40% of total travel time on driving, major time is consumed at check points and other official stoppages. A recent news indicate that Road Transport and Highway ministry is considering overhaul of around 80 border check post across the country to ensure seamless flow of goods under GST regime.

- **Impact on Pharma Industries:**

Pharma sector generally have an inverted duty structure i.e. excise duty on raw material is around 12.5% whereas on finished goods it is around 6-7%, this results in accumulation of refund dues from government. Sector is hopeful of making refund process fast and simple, this coupled with savings in warehousing and logistics cost may anticipate a positive impact.

- **Impact on FMCG Industries:**

FMCG products have a general excise duty rate of 12.5 per cent and a VAT at around the same level. As standard GST rate is expected to be lower than this, which if passed on to the consumer will have a positive impact on this sector. At the same time, FMCG companies will save on logistics costs.

- **IMPACT on Textile Industries:**

Currently, the domestic cotton based industry is not subject to excise duty and on branded readymade garments with MRP> Rs. 1000 excise duty is 2% with abatement rate of 40% (without Cenvat) or 12.5% (with Cenvat). However, manmade fibre sector attracts a regular duty structure (with Cenvat). It is to be seen whether lower GST rates are declared for this sector, failing which this sector may have a negative impact.

- **Impact on START UP:**

With increased limits for registration, a DIY compliance model, tax credit on purchases, and a free flow of goods and services, the GST regime truly augurs well for the Indian startup scene. Previously, many Indian states had different VAT laws which were confusing for companies that have a pan-India presence, especially the e-com sector. All of this has changed under GST.

"GST - with a simplified compliance model & free flow of goods & services, Indian Startup & E- commerce scene will get a big impetus,"

- **Impact on Ecommerce:**

  The e-commerce sector in India has been growing by leaps and bounds. In many ways, GST will help the e-com sector's continued growth but the long-term effects will be particularly interesting because the GST law specifically proposes a Tax Collection at Source (TCS) mechanism, which e-com companies are not too happy with. The current rate of TCS is at 1%.

- **GST Impact on MSMEs:**

  **Positive Impact of GST on MSMEs**

- Lunching new business becomes easier as unlike earlier tax regime there are no multi point registration across multiple states.
- Entire process of Taxation becomes simpler due to removal of tax on tax and subsume of all other indirect tax into GST.
- Reduced cost of logistics due to hassle free transportation sector due to merge of Entry tax with GST.
- The GST eases the distinction between goods and services are eliminated
- Increase threshold limits for new business.( 20 lac in case of GST but 5 lac earlier)

**Negative Impact of GST on MSMEs**

- Multiple registrations pan-India business. A business will have to register online for GST in every state involved in its sales process. If your business delivers goods across 5 states, then you'll have to register for GST in those 5 states to carry out your business activities.
- Return must be filed on a monthly basis; Under GST, there will be around 36 returns in a fiscal year. GST returns will also require you to close your books on a monthly basis, which, realistically, will take a lot of time.
- Cost of tax compliance is likely to increase; Consistently filing 3 returns a month, periodically reconciling your transactions, and uploading invoices regularly will give rise to the need for an accountant with technical expertise. Hiring an accountant and paying them, adds to the burden on small businesses.
- Registration are mandatory for e-commerce suppliers and operators; Businesses carrying out activities related to ecommerce should register under GST irrespective of their annual turnover rate.

GST Impact Assessment

## Major Impact on purchase functions:

| S.No. | Particulars | Earlier provisions of Central Excise | Earlier Provisions of State VAT | Provisions under GST Regime |
|---|---|---|---|---|
| 1 | Scope of Credit | Credit is available only on goods used in or in relation to manufacture. One to One correlation was to be maintained | Credit of goods used in manufacture was available. | Credit is available; be it used for manufacture or not, like office Equips., stationery etc. subject to the condition that it is used in the Furtherance of Business |
| 2 | Interstate Purchase | Credit of Excise paid on interstate purchase was available. | Credit of CST paid on interstate purchases was not available. | Credit of GST paid on any purchase for use in furtherance of Business (including interstate) is available. |
| 3 | Advance Payment | Tax is not charged on advance payment made for purchases | Tax is not charged on advance payment made on purchase. | Tax is payable on Advance payment for purchase of goods or services. |

Figure 1

## Major impacts on sales function:

| S.No. | Particulars | Earlier Provisions of Central Excise | Earlier Provisions of State VAT | Provisions under GST Regime |
|---|---|---|---|---|
| 1 | Branch / Agent Sale | Sale to agents or branches is taxable since tax is levied on removal of goods from place of manufacture. | Tax is not levied on transfer of goods to agent or branches wherever they are made other than by way of sale. | Tax will be levied on supply to agents, Interstate Branch transfer and transfer to different vertical within same state but having different registration. |
| 2 | Advance Payment | Tax liability does not arise on Advance payment | Tax liability does not arise on advance payment. | Tax liability will arise on advance receipts/payment. |
| 3 | Place Supply/sale | Place of sale was not required to be checked. | Place of sale was required to be checked to identify whether CST or VAT is to be charged. | Place of supply is to be checked to identify Whether CGST and SGST or IGST is to be charged, considering place of supply |
| 4 | Reverse Charge | No tax payable under reverse charge on goods procured. | Generally No tax payable under reverse charge, however, in some states purchase tax is levied on purchase from unregistered person | Tax will be payable under Reverse charge on all purchases made from unregistered dealers and on other goods as notified. |

| | | | | |
|---|---|---|---|---|
| 5 | Penalty for late payment | Penal Interest, late fee and penalty charged for delayed payment of consideration is not included in valuation. | Interest, late fee and penalty charged for delayed payment of consideration is not included in valuation. | Interest, late fee and penalty charged for delayed payment of consideration is to be included in valuation for the purpose of calculation of tax. |
| 6 | Anti-Profiteering clause | No anti profiteering measure to ensure pass on of credit of tax to final consumer. | No anti profiteering measure to ensure pass on of credit of tax to final consumer. | Anti-profiteering measure is introduced to ensure that credit is passed on to the final consumer |
| 7 | Consumption/ Destination based tax | Tax is levied by the Central Government on origin based principal. | Tax is levied by states on origin based principal. | Tax is levied by center and states Concurrently on destination based consumption principal. are consumed. |

Figure 2

# RESULTS AND DISCUSSION

## 1. GST impact on operational and compliance Issues :

| | Current Excise, Service Tax and VAT | Under GST |
|---|---|---|
| 1 | Separate compliances were needed under each law. | No separate compliance of Indirect Taxes laws. Only GST laws to be complied. |
| 2 | No separate excise audit was required, however VAT audit was required in some states. | GST Audit is required for each registration having turnover above the turnover limit of Rs. 1 Crore. |
| 3 | Statutory forms were required under VAT and statutory registers under excise were also required to be maintained | No statutory forms or statutory registers are required to be maintained. Books can also be maintained in electronic form. |
| 4 | Various manual compliances are required under existing laws | Most of the compliances are online on GST portal |
| 5 | Way bill were not required in case of intrastate transportation. Only Inter-state transportation warranted such way bill when the consignment value was over a specific value. | Now e way bill is required in case of any transportation of goods when the consignment value is over Rs.50,000/- irrespective of whether the goods are moved within or outside state, |
| 6 | Material could be sent over challan without Invoice. | Invoice is to be raised in all cases at the time of removal of goods except in certain specified circumstances. |

Figure 3

Apart from the above major changes, there are various new things/changes which will have bearing on the way the businesses are running now-a-days. **Few more precautions and measures are required to be taken care of:-**

- All the existing contracts need to be looked into to ensure that Indirect tax clause is taking care of GST, as GST is going to impact costs in case of all contracts specially construction costs. It is going to immensely impact the contracts where tax is inclusive in the contract price.
- Inventory accounting to be strengthened so that there is no issue in taking input tax credit which is based on receipt of goods or services only.
- Records are to be kept at each registered place of business be it electronically or in hard format.
- Payment mechanism to be aligned as per law otherwise there might be issues in case of Input credits.
- Billing patterns, formats and time lines need to be realigned in view of the provisions of GST.
- Maintenance of running accounts and payment settlement to be looked at to ensure the adjustment of payment at invoice level.

- Place of business and supply of goods or services from there to be strictly looked into taking into consideration the registration provisions so that places where registration is required to be obtained could be minimized and unnecessary compliance burden could be ruled out.
- Identification of Multiple Business Verticals and a careful analysis is required, looking at the provisions of the law that where it would be beneficial to take separate registrations of such verticals.
- Distributions Channels are required to be reset looking at Place of Supply and Input Tax credit provisions so that there is no extra tax burden and No spillover of Input tax credit.

GST does not just have impact on taxes, but also on each business unit of a company. It affects every part of business right from financial reporting, accounting, supply chain, technology enablement, contracts redesign and tax compliances. The businesses are working on the transitional changes, viz. input credits, claiming refund, exemption, etc.


KEY COMPLIANCES CHECKLISTS : Figure 4

**Key Issues faced in complying with GST law:**

Amongst the key issues faced with respect to GST implementation, the respondents from industries have highlighted glitches in GSTN portal, cumbersome procedures and documentation, and cost of compliance as the major areas of concern that need to be addressed.

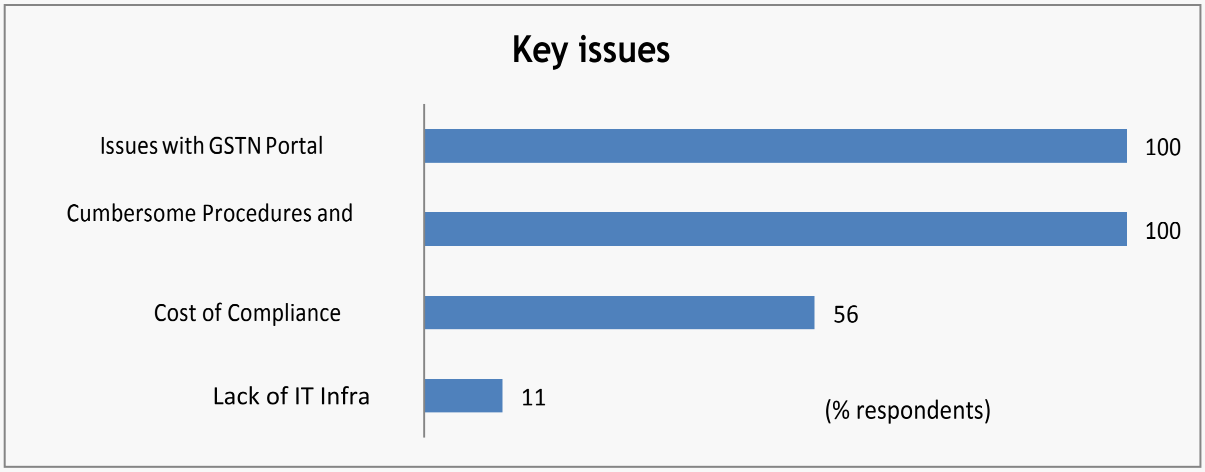


Figure 5

***Procedural issues – Filing of return***

Almost 87% of the survey respondents mentioned that they have faced issues in filing of various GST returns. The key issues highlighted by respondents were:

- Service providers have raised the concern of multiplicity of registrations under the GST regime, unlike under earlier laws where there was an option to obtain centralized service tax registration and file a single return. A separate registration is now required with every state where the service is being provided.

Monthly filing of GST return has been cited as a cumbersome procedure. Around 78% of the respondents felt the need to change the periodicity of return filings for those taxpayers having aggregate turnover above Rs. 1.5 crore from monthly to quarterly.

- ***Cost of compliance is burdensome***

The survey respondents have highlighted that cost of compliance under GST has increased in terms of increase in number of registrations, number and types of returns, and maintenance of state wise books. They also emphasized that in comparison with the previous tax regime, additional compliance costs have been incurred under GST regime for software up gradation and engaging professionals from the fields of accounting, tax and software.

- ***E-way bill***

All the respondents have cited likely implementation issues upon the introduction of e-way bill.
As per the e-way bill rules, the current limit of distance till which details of goods transported for e-way bill purpose is not required to be updated on the portal is only 10 kms. Such a limit is very less.

- ***Inter-unit transfer of services from one state to another***

Some of the respondents have highlighted issues they have faced in inter-unit transfer of services from one state to another.

## *Other issues:*

- ***Classification related issues*** – Respondents have cited various issues related to determination of correct classification of goods and their HSN numbers. In certain cases, there are multiple rates of tax for a single HSN / SAC code and the process of determining correct classification becomes very time consuming and difficult. Often, different HSN codes are being used by different suppliers for the same goods and also there is a mismatch between buyers and dealers. This often leads to conflict on applicable rate and also loss in sales. Due to lack of clear classification, there is an arbitrary levy of tax rate by customs officers.

- ***Refund*** – As GST return due dates are being extended periodically, compounded by the improper functioning of the GST portal, most assesses are not able to file their GST returns. Due to this, there is no correct indication on the input credits available for set off. Moreover, there are issues in refund of GST with a variety of transactions.

.

## Key Suggestions made by respondents

There are several issues faced whilst filing GST returns as enumerated above. These issues need to be addressed urgently to make sure that the system gets stabilized at the earliest.

***Making GSTN portal robust***

- There is an urgent need to ensure that GST portal is technically functional to facilitate timely filing of all returns without extension of deadlines. Major revamp/upgrade of the GST portal is an urgent requirement to handle huge volumes and speed of filings, without extension of due dates.
- GSTN system should be designed to auto set-off the liability against available credit and payment. There should be one single return with the Annexures for outward and inward invoices. The matching can happen in the following month.

***Centralized registration for inter-state services***

Businesses having pan-India activities, especially in the services industry have recommended that a centralized registration for carrying out activities in all states, including simplified return filings should be facilitated for the benefit of assesses.

***Filing of returns to be made simpler***

- Due to the issues being faced with monthly filing of GST returns, respondents have suggested that returns should be required to be filed on quarterly /half yearly basis The number
  -
  -

of returns should be reduced to a consolidated single return. Alternate suggestion is that summary returns i.e. 3B return can be filed monthly and invoice wise details of sales can be filed half yearly in a simple statement.

***Anti-profiteering provision***

Respondents were asked if they felt that there was need for the Government to provide clarifications in order to ensure that the anti-profiteering provisions do not result in undue harassment of taxpayers. There were several suggestions on the following lines:

- The Gov. should clarify what clause can be invoked in what kind of a situation.
- Some respondents suggested that the anti-profiteering rules should not be made applicable for B2B transactions.
- In principle, the provision is equitable but it should also be implemented in an equitable manner. It is the business that should be able to decide the manner in which pricing of a product is being determined and not the tax regime.

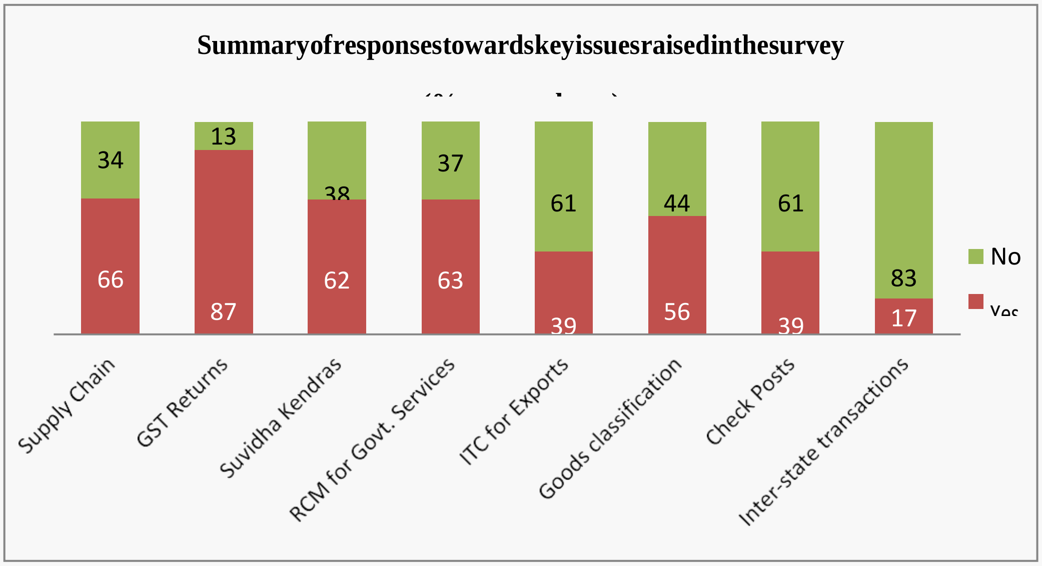


**Figure 6**

## 2. GST causing Disruption among Indian business:

64% of the respondents agree GST caused disruption among biz:

Around 64 per cent of the respondents surveyed are of the view that the Goods and Services Tax (GST) rollout led to a disruption among the businesses community across the country. When asked about largest reforms over the past year, 64 per cent of the respondents surveyed believe the newly implemented GST has disrupted the businesses community in the country. Further, 76 per cent among GST practitioners and CAs think that a knowledgeable accounting professional is essential for businesses to be compliant with GST, underscoring the willingness for compliance and the trust of people in the acumen and expertise of accounting professionals. The GST, implemented from July 1 last year, aims to solve long existing challenges prevalent in the current taxation system. For small and medium enterprises (SMEs) in particular, the GST bill will help eradicate indirect taxes, provide more transparency of the tax process, draw projections of production cost and make access to new geographies for business expansion more accessible, the survey noted.

## 3.The GST Positive impact on Cost of Livings :

The cost of living depending upon the relative pricing of goods post GST . Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and supplier of services; It is expected that a relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under a compounding scheme- purchases from such entities will cost less for the consumers; Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption. Post GST will follow below impacts –

- Reduction in Cascading of Taxes
- Overall Reduction in Prices
- Decrease in Inflation
- Decrease in cost of Living

The survey says respondents giving a conflicting opinion about the GST impact on cost of living. Over 85% Professionals says cost of living will be affected in the medium to long term but over 60% of respondents among general public says no such improvement post GST.

However a survey by "***howindialivesin.com*** " conclude that the early net impact: you gain some, you lose some, but overall not much change.

***survey from howindialivesin.com***

What impact has the goods and services tax (GST), had on the urban household shopping budget? In order to answer this question, we have collated prices of goods (such as Household goods, Personal care and effects, vegetables, Cereals products, Pulses and products, health items etc) that make up an average middle-class shopping cart.

We sourced prices from the Big Basket website for 71 items covering 18 categories of the Consumer Price Index (CPI), of which GST was applicable on 47 items, for the five main metros.

While the early net impact post-GST was a mixed bag, with some gains and losses, a week into the new GST regime, your household bill is set to get dearer by around 2%. On the actual selling price, which factors in the discounts given by a retailer, the total cost of our basket of 47 items increased in all five cities, with Bengaluru recording the maximum increase (of 2.67%).

In the average monthly shopping basket after GST, there wasn't much change in the listed price of goods in the 5 main metros. We compared the cost of 71 essential items pre-GST and post-GST. Out of the 71 items, 47 are taxed under GST. Although the tax rate for an item is the same across India, its price may not be the same. The early net impact: you gain some, you lose some, but overall not much change.

On the maximum retail price (MRP), or the list price of goods, the total cost of this basket of 47 GST-eligible items fell in three of the five cities, with the highest savings being in Chennai (of 0.9%, on a bill value of Rs7,364). The highest increase was in Delhi, of 0.44%. On the actual selling price, which factors in the discounts given by a retailer, the total cost of our basket of 47 items increased in four of the five cities, with Mumbai showing the maximum increase (of 1.58%). This suggests lower discounts as compared to the pre-GST rates

The early net impact: you gain some, you lose some, but overall not much change.

On the maximum retail price (MRP), or the list price of goods, the total cost of this basket of 47 GST-eligible items fell in three of the five cities, with the highest savings being in Chennai (of 0.9%, on a bill value of Rs7,364). The highest increase was in Delhi, of 0.44%.

On the actual selling price, which factors in the discounts given by a retailer, the total cost of our basket of 47 items increased in four of the five cities, with Mumbai showing the maximum increase (of 1.58%). This suggests lower discounts as compared to the pre-GST rates

## 4. GST Favors World Bank’s ease of doing Ranking .

GST may increase the revenues of the Indian Government through improved tax compliance, reduction of costs of compliance from levy of uniform and simplified taxes across the country and ease of compliance through use of a common information technology (IT) infrastructure between the Centre and the states.
While the GST would certainly bring in huge operational efficiency and boosts the tax revenue by increased compliance, it would tempt the global investors lot more now to do more business with India and invest here, to take advantage of the single market.
Among the constituents of ‘paying taxes’ in doing business are not only the number of taxes paid, which have fallen under the GST system, but also the hours per year spent on preparing tax returns. If the GSPs can reduce the time, it would support the ease of doing business, and ceteris paribus, take India’s rankings higher. While some individual sectors and industries may face friction during this transition, particularly if the GST rate is higher than the combined taxes rate, there is no doubt about the advantage of the GST in terms of convenience to doing business in the aggregate.
GST system could take India’s doing business rankings higher is in the simplicity and consolidation of taxes. At the central level, all excise duties, additional duties, additional duties of customs, special additional duty of customs, and service tax will collapse into a single tax, the GST. At the level of States, the state VAT, sales tax, luxury tax, entry tax, entertainment tax and other specific taxes on advertisements, purchases and lotteries will be replaced by the GST. Fewer taxes per product or service, within the confines of other variables — the calls for consolidating all taxes into a single number or two remain, but as explored earlier, the current system is not out of sync with global trends — bring certainty of tax payments to the entrepreneur.

**GST impact on Ease of doing Business Measures:-**

| Parameters that impacts world Bank Ranking | % Says | |
|---|---|---|
| Starting Business | 70 | One nation and one Tax certainly help in starting a business. |
| Getting credit | 60 | Becomes easy and cheap as GST rate is relatively less compared to earlier service tax rate. |
| Trading across borders | 75 | Minimal GST rate will have positive impact on Export and Import |
| Paying Taxes | 80 | GST increases the Tax base through formalization of Economy. |
| Registering property | 62 | Since Real estate sectors enjoys many exemption under GST so property registration will be easy. |
| Transparency in business | 68 | GST Eliminate cascading effect and double taxation, bring Transparency. |
| Ease of Business for Logistics | 65 | GST is beginning to have a positive impact on businesses of logistics. |

Figure 7

Almost all categories of respondents are unanimous that GST will impact positively the ranking of ease business . The three most highest ranking measures such as Transparency in business , Paying taxes, and starting business will never be same again as were in the pre GST period.

***Ease of Business for Logistics***

The survey shows that implementation of GST is beginning to have a positive impact on businesses 'of logistics. Almost 61% of the respondents stated that their experience with respect to transportation of goods from one state to another has been good in terms of check posts. While a majority of respondents (52%) mentioned that goods vehicles are no longer stopped and checked at the state borders, remaining 48% had faced stoppages and checks at the state borders. Around 59% of respondents says reduction in transportation time post GST implementation.

## 5.GST impact on Make in India .

The 'Make in India' campaign has its origin in the Prime Minister's Independence Day speech in which he gave a clarion call for "Make in India" and "Zero Defect; Zero Effect" policies. The campaign aims to *facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build best-in-class manufacturing infrastructure* in India.

A uniform and less complex system of levy and payment of taxes may also help in attracting private and foreign business investors to set up business in India as it may result in easier movement of goods within the country as well as overseas at economical costs; increased productivity gains; automated procedures for various compliances such as GST registration, returns, refunds, tax payments, checking input tax credits online, etc. Therefore, the aforesaid system of levy and payment of GST may ensure that India continues to be an investment destination.

Table showing how GST impact " Make in India" .

| GST impact measures | Respondents say | Impact on Make in India |
|---|---|---|
| Investment | 70% | High impact due to due to One nation One tax |
| Export to be Zero rated | 70% | Moderate impact as custom still outside GST |
| Protection of Domestic Industries-IGST | 60% | Moderate impact |
| Manufacturing Infrastructure | 80% | Impact not assessed yet |
| Benefits to small Tax payers | 70% | Moderate impact |
| Common National Market | 75% | High impact because of One nation One tax |
| Ease of business | 80% | High impact |
| Transparency | 90% | High impact on Make India |
| Ease of Compliance | 85% | High impact on Make India |

Figure-8

## 6.GST brings Transparency to the Indian economy.

The Respondents were asked to use a 1 – 5 rating scale (Strongly Agree = 1, Agree, Neutral, Disagree, Strongly Disagree = 5). Figure 9 provides the results.

Over 75 % of respondents strongly agree that below transparencies measure will eliminate "Black Transactions" in the economy ,that lead to a transparent economy. Respondents are unanimously of the opinion that E assessment and using GST data to track tax evaders are two most important measures to bring transparency in the economy.

**Figure provides the GST Provisions impact the Transparency**

| **Average Rating: 1 = strongly agree** | | | |
|---|---|---|---|
| GST provisions | GST Practitioners | Industry Users | CAs |
| Anti-Profiteering | 1.8 | 1.8 | 2 |
| Using GST data to track Tax Evaders | 1.25 | 2 | 1 |
| Electronic Assessment | 1.5 | 1.2 | 1.7 |
| Self-regulatory Tax systems | 1.4 | 1.3 | 1.9 |
| Non-intrusive Electronic Tax system | 1.4 | 1.2 | 1.2 |

**Figure 9**

## 7.GST is a "Tax payer friendly measures".

The GST may impact the tax structure, tax computation, tax compliance, etc. and thereby, affect various aspects of business operations including pricing of goods and services, accounting, inter and intra state transport of goods and services etc. Over 80% of all the respondents say that elimination of cascading effect as well as avoiding double taxations are two most Tax payer friendly GST measures .Interestingly majority among the CAs respondent are of the opinion that in some cases Double taxations have taken place and not completely eliminated.

| Strongly Agreed = 1; Somewhat agree = 2; Disagree = 3 | | | |
|---|---|---|---|
| GST provisions | Respondents | CA/ICWAs | Industry |
| Elimination of Cascading effect | 2 | 1 | 1 |
| Avoiding Double Taxations | 1 | 3 | 2 |
| Electronic Assessment | 2 | 1 | 2 |
| Simplified Tax regime | 2 | 1 | 2 |
| Reduction in multiplicity of Taxes | 2 | 1 | 1 |
| Automated GST refund system | 1 | 1 | 2 |

Figure 10

More than 70% of the respondents believed GST is a positive decision for the industry, while 68% business felt it will ease compliance since it is backed by technology .Almost 90% of industry respondents say GST has been largely positive , but lack of clarity on regulations a major hurdles.

### 8. Investment in GST Artificial Intelligence:

India is on the verge of a data revolution thanks to the convergence of multiple factors such as smart phone penetration, movement to a cashless economy and the implementation of GST, Aadhar and India Stack. This is making conditions ripe for widespread use of Artificial Intelligence to analyze vast quantities of GST data for meaningful predictive analysis .

| Average Rating: 1 = strongly agree | | |
|---|---|---|
| | Respondents | |
| Decision Making & Problem Solving | 1.2 | Effective decisions making |
| Spurring Innovation | 1.9 | GST will spur innovation |
| Information Analysis | 2.0 | Effective analysis of information |

Figure 11

## 9.Data mining and Data Analytics.

The GSTN can use data-mining techniques to detect tax fraud. For instance, the wrongful use of tax rules or the creation of non-existent dealers to claim illegal benefits that exist in the current VAT system can be easily detected. The GSTN enables capture, processing and exchange of information amongst all the stakeholders (taxpayers, states and Centre, accounting offices, banks and the RBI).
GST officers have started sending scrutiny notices to companies whose tax payment did not match the final sales return, after revenue authorities detected underpayment of GST by about 34 per cent, PTI reported. Besides, companies whose final sales return GSTR-1 did not match GSTR-2A, which is a purchase return auto-generated by system from his seller's return, have also received scrutiny notice. As per an analysis done by the revenue department in March 2018, 34 per cent of businesses paid Rs 34,400 crore less tax between July-December while filing initial summary return (GSTR-3B). These 34 per cent of the businesses have paid Rs 8.16 lakh crore to the exchequer by filing GSTR-3B, whereas analysis of their GSTR-1 data show that their tax liability should have been Rs 8.50 lakh crore EY Partner Abhishek Jain told PTI that the activity of data analytics at the end of revenue authorities had commenced with various players receiving notices, seeking clarifications on differences between GSTR-1 and GSTR-3B as well as GSTR-2A and GSTR-3B. (The Economics times , 09-may-2018)

## 10 .GST impact on working capital requirement.

Apart from impacting tax cost, GST is also likely to have an impact on the cash flow requirement of business. This would be especially prominent in case of transactions involving supply of goods. Majority of the respondents who have said that there would be negligible impact or have not yet assessed the impact are from the services sector. Further, majority of the respondents who have stated that there would be either substantial or moderate impact have presence in more than one state and deal predominantly in ‘goods’.

46 % close to majority of the respondents feel that higher working capital may get blocked under GST regime. Almost 70 % of the respondents say that there will be moderate to high impact on working capital in the initial period of GST , due to delay in GST refund clarity and non-adjustability of GST credit.

## 11. **GST input credit impact on profitability**.

The distinguishing feature of GST is provision of full input tax credit across goods and services, and collection of tax on value added at each stage so that full tax is borne by final consumer. This ensures that tax is always a pass through and that it never becomes part of the cost. For these reasons most of the respondents have stated that introduction of GST will have a positive impact on their profitability.

Almost 70 % of respondents say that GST will have high impact on profitability while 20% say the impact is not yet assessed fully. Interestingly some respondents who pre GST were of the opinion that GST will have no impact or impact negatively on profitability are now saying that GST is having positive impact on profitability.

## 12. **GST impact on business consolidation.**

One of the important reasons for an organisation to spread its business operations across various states is to minimise the burden of Central Sales tax. Under the new tax regime, tax on inter-state transactions would only be a pass through and therefore, location of a plant/warehouse/ contract manufacturer would become tax neutral. It would certainly take some time for businesses to assess the cost involved in relocating and the gains that would follow therefrom.

About 44 % respondents say businesses may consider consolidating their business operations. However over 75% of respondents among Tax consultants including CAs are advising their clients for business consolidation due to requirement of multi state registration under GST .

### 13. **GST stands up to Industry expectation.**

Finally the respondents are asked whether GST stands up to industry expectation. Surprisingly almost 75% respondents say that GST is not yet meet the industry expectations due to various glitches however over 80 % say that it will meet most expectations in the coming 2-3 years. No respondents say if GST exceed all expectation of industries.

## CONCLUSIONS AND LIMITATIONS

The objective of this study is to gain a clearer understanding of the essential GST impact on ease of business with following conclusion and limitations.

Industry representatives were not party to the framing of the GST rules. Instead politicians and bureaucrats were involved in framing the GST rules. Barring a few, the qualifications of politicians were hardly adequate to work out of a practical set of rules. The bureaucrats had little experience in framing taxation regulations in the backdrop of a basic change in attitudes which encourages and rewards good taxpayers.

GST was meant to create one nation, one tax but the existing uncertainty over tax rates and the problems faced by the businesses in filing returns will have a direct impact on the ease of doing business index. GST was meant to make things more seamless,"

The confusion and frequent alteration of tax rates of products under the goods and services tax (GST) may dent India's hopes of improving its ranking on the ease of doing business index brought out by the International Finance Corporation

A KPMG report said that the industry has to go through the cycle of re-fixing final consumer prices if GST rates are revised within two months of its launch. Besides, businesses that are affected would have to communicate the changes through the supply chain and revise consumer demand projections and realign discounts and marketing policies. "Making changes so often also gives an impression of uncertainty in doing business in India, which had always been a complaint of global businesses,"

Very recently, In a strong observation in response to a writ petition , Bombay High court observed that the GST regime was "not tax friendly" and there was a need to put grievance redress mechanisms in place. The present system was affecting the "image, prestige and reputation of the country particularly when we are inviting FDI. The High court sites as "The poor execution of the country's biggest tax reform'. Hence The Gov. need to fix the various loopholes such as GSTN glitches, Proper redressal mechanism and overall GST administration.

There is still no clarity regarding Anti Profiteering Provision , however following issues may emerge in future :-

- If amount to be transferred to consumer after netting off of lower rate of GST from one product with higher rate of GST on other product or unit ?
- If the whole of tax saved is to be transferred to the consumer or Net of (tax save- Expense incurred in GST compliance) to be transferred to consumer. Though the GST authority and the ICAI have conflicting opinion about this.

Exclusion of items from the purview of GST such as petroleum product will hurt the business directly or indirectly.

It is unfair that some “essential goods such as washing machine and refrigerators are still attracting maximum rate of GST @28% , which will affect the cost of living of common men.

Real estate under GST: A great weapon in the war against black money : GST leaves a digital trail of transactions that serves as a deterrent for non-reporting the sale value of land or building.

---

GST is not a tax rate or even a system of taxes that gets in the way of doing business; those have mostly been sorted out by moderating tax rates. The real problem lies in the immense powers given to tax officials, powers that have the potential to harass entrepreneurs and drive all enterprise out of her. Nailing a tax evader is one thing, but turning the tax system into a network of tax terror is quite another. Finally, the success or failure of the GST implementation, and through it the impact on doing business and making India an attractive investment destination, rests on them. That it is important is beyond doubt, and it will get done beyond debate.

India’s GST among the most complex, has the second highest tax rate. India’s new unified Goods and Services Tax, which subsumed a web of central and state levies to make life easier for businesses, is one of the most complex and has the second highest rate in the world. There are only five countries in the world including India which have four or more tax rates of GST, according to the World Bank’s bi-annual India Development Update. Most countries have either a one or two rates. Other countries with four or more rates are Italy, Luxemborg, Pakistan and Ghana. Not only that, Indian GST’s top slab of 28 percent is the second highest of the 115 countries that World Bank compared.

The tax overhaul brought along some teething issues and disruptions. Dealers stocked up on inventory and reduced production, pulling down growth to a three-year low. Those issues have since gradually abated and the economy has recovered. Revenue collections have taken a hit though. India missed its fiscal deficit target this year, which the finance minister said, was because it had to work with 11 months of tax revenue as GST is collected with a month’s lag.

The World Bank said India’s threshold for GST registration is also the highest. Businesses with an annual turnover of Rs 1.5 crore fall under the GST regime and are eligible to get input tax credit. Those with annual sales below that and over Rs 20 lakh are allowed to pay a flat tax rate of one percent but can’t charge GST on sales or receive tax credits. That’s mainly to ease the cost of compliance for small businesses.

GST’s homecoming has also been accompanied by state administrations experiencing disruptions, World Bank added. “This included a lack of clarity on discontinuation of local taxes;

demands for exemptions or lower tax rate; and on account of coping mechanisms to preserve revenue collections."

There have also been reports of an increased administrative tax compliance burden on firms and a locking up of working capital due to slow tax refunds, the World Bank noted.

High compliance costs are also arising because the prevalence of multiple tax rates implies a need to classify inputs and outputs based on the applicable tax rate.

The key to GST's success, according to the World Bank, would be a policy design that minimizes compliance burden by reducing the number of different rates, limiting exemptions and simplifying laws and procedures. A nuanced communication campaign, it said, is also crucial to convey the various aspects of the new tax regime to businesses.

While teething problems on the administrative and design sides persist, the introduction of GST should be "considered as the start of a process, not the end", said World Bank. The economy is adapting to the new system, and the GST Council has been evolving the tax structure. "While international experience suggests that the adjustment process can affect economic activity for multiple months, the benefits of the GST are likely to outweigh its costs in the long run."

It is a fact that survey has inherent limitations, such as the inability to generalize beyond the sample, non-response bias, and sample size, which is small relative to the total population. In addition, within the questionnaire, answer-choice lists may not be comprehensive, potentially biasing the findings. Alternatively, answer choices may be aggregations of more than one aspect, or the answer choices may overlap. In general, limiting the ranking to five for specific questions could have affected the interpretation of the results and conclusions.

## GST TIMELINES

- The promise of (GST) to bring clarity has finally started showing. As GST officers unleash the force of data analytics, no discrepancy or mismatch will escape their scrutiny. Even if it's less than one rupee. GST officers can go as far as 17 decimal points to square their accounts. The intolerance for gaps is so extreme that a proprietor of an Ahmedabad-based engineering company received a notice from the state tax department stating there was a discrepancy of Rs 0.77999999999883585 in his tax payment. "Please clarify difference between GSTR-1 and GSTR-3B amount of tax for the period Oct-17 to Dec-17. The Amount is Rs 0.77999999999883585," stated the notice. ( The economics times 09-may-2018).

- India's GST Among The Most Complex, Has The Second Highest Tax Rate (World bank update on 15-03-2018).
- GST Impact : Has Tax net widened ? Here is a fact check. GST has increased the relevant tax net by more than a half going by the number of businesses registered. However, since a quarter of the GST registrants doesn't file returns or pay tax and 40% of the filers claim nil tax liability, the tax net may not have been cast as wide as expected. Financial express, 12th March 2018
- Real estate developers in a bind over charging GST for affordable homes. Business standard, 12th March 2018.
- GST will become good and simple tax in a few months and The GST will be simple enough for everyone to comprehend . Economics Time , 29th November 2017.

- With GST, more lending will be formalized now . Economics Time. 28th November 2017
- GST to have big impact on ease of business ranking next year: Ramesh Abhishek , Secretary DIPP, Economics Time,1st November 2017
- "GST will make India a formal, easier & simpler, a more revenue generating economy .
- If competition doesn't work , Govt. has to step in. Financial express 4th Jan 2018.
- Anti- Profiteering guidelines soon in public domain. Business standard ,31st Jan. 2018.
- Anti-Profiteering Notices to three entities . Financial express , 1st January 2018.
- Builder may face probe by Anti-Profiteering body . Mint, 18th December 2017.
- Consumer confidence index , which should give an idea of the strength of consumer demand, shows the index falling again. "Has Indian economy weathered the effect of GST" ,Mint ,13th February 2018,
- Industry cites glitches portal as major concern. ( Economic Times, 19th Feb 2018).
- No GST on food served by hospitals to in –patients (Economic Times, 14th Feb 2018).
- Pepper fry eyes profit for the first time amid GST reduction (Business standard, 21th feb 2018)

BIBLIOGRAPHY

1. CII and KPMG . (2013). Report on Goods and Service tax survey
2. Govt of India ,Ministry of Finance, Department of Economic affair . (2017) and (2018) . Economy Survey.
3. GST Articles/Publication from CAclubindia.
4. http/gstcouncil.gov.in
5. ICAI Background materials on GST (2017).
6. GST analysis by Big 4 such as PWC, EY and Delloitte.
7. FICCI GST surveys(2017)
8. www.idtc.icai.org
9. World Bank ease of doing business ranking ,(2017)
10. www.economicstimes.com
11. www.businessstandard.com
12. www.financialexpress.com
13. The Mint .
14. www.icwai.org
15. www.terex.com , GST Implementation project ,2017.

**Appendix** 1: **Questionnaires.**

1. **What is your Primary profession? Please check only one?**
   - CA/ICWA/LAWERS in Practice
   - GST Practitioners
   - Entrepreneurship/ Startup/IT
   - Other Pls specify
2. **Do you think If GST is really about "One nation One Tax"?**
   - Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree

3. **If GST causing disruption among Indian business?**
   - Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree

4. **Is GST likely to improve People's cost of Living than about ease of business?**
   - Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree

5. **What about GST impact on "Make in India"?**
   - High Impact
   - Moderate Impact
   - Negligible or No Impact
   - Impact not assessed yet.
6. **If GST will improve ease of Doing business Ranking**?
   - Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree
7. **If GST will improve and bring Transparency into the Economy ?**
   - Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree
8. **If GST eases Tax compliance and eliminate physical interaction ?**
   - Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree
9. **If widening of Tax bases post-GST will lead to Increase in GST collection?**
   - Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree
10. **What is the impact of GST on working capital requirement .**
    - High Impact
    - Moderate Impact
    - Negligible or No Impact
    - Impact not assessed yet.

**11.What is the input tax credit under GST impact on Profitability?**

- High Impact
- Moderate Impact
- Negligible or No Impact
- Impact not assessed yet.

**12.Whether GST leads to consolidation of Business Operations. (Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree) ?**

- Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree

13. **How do you see GST impacting Manufacturing and Consumer business?**
    a. Increases Litigation – 1.56%
    b. Increases compliance – 10.91%
    c. Impacts cost structure – 8.46%
    d. Impacts business processes (IT Systems, Supply Chain & the like) – 18.93%
    e. All of the above -60.13%

14. **Which is the biggest matter of concern today faced by the IT, Media and Financial Services industry in terms of litigations ?**
    a. Taxability of software as goods or service – **12.22**%
    b. Multiple levies of service tax, VAT and other local taxes – **12.22**%
    c. Export of services and refunds – **8.33**%
    d. All of the above – **67.22**%

15. **What would be the impact of GST on banking and insurance sector?**
    a. Positive – **34.1**%
    b. Neutral – **11.88**%
    c. Negative – **28.74**%
    d. Don't know – **25.29**%

16. **What is your IT organization's preparedness with respect to GST implementation ?**
    a. Advanced stage of designing system change required – **7.82**%
    b. Impact assessment not completed **– 15.08**%
    c. Impact assessment completed **– 7.26**%
    d. Not started **– 69.83**%

17. **How do you see GST impacting Services and Infrastructure business?**
    a. Increases Litigation – **1.6**%
    b. Increases compliance – **17.6**%
    c. Impacts cost structure – **11.2**%
    d. All of the above **-69.6**%

18. **Whether GST stands up to industry expectations** ?
    a. Not meet expectation
    b. Meet expectation
    c. Meet most expectation
    d. Exceed all expectation

19. **Whether GSTN working fine operationally ?**
    a. Not satisfactorily
    b. Satisfied
    c. Still a concern
    d. No comment

20. **Is GST Tax Payer Friendly ?**
    o Strongly Agree /Agree/Neutral/ Disagree/ Strongly Disagree