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Three years of GST
Journey so far and
the way forward



Background

It has been three years since the introduction of Goods and Services Tax (GST), India's biggest tax reform, on 1 July 2017. It has been a roller coaster ride for the government, industries, and consumers due to the amount of changes and reforms introduced in the past three years. These changes were primarily focused on rationalising rates, simplifying procedures, and curbing tax evasion. Stabilising one of the world's biggest online tax systems, GSTN, was also a key focus area for the government.

Let us look at the following statistics and key indicators to know how successful this historical tax reform has been in achieving its desired objectives:

- **Increase in tax base:** After its implementation on 1 July 2017, over 38 lakh taxpayers migrated into the GST regime. This number had further increased to more than 64 lakh in September 2017. Also, with an addition of new GST registrations of over 58 lakh, this number has increased by almost 90 percent and we had total (new plus migrated) 1.23 crore active GST registrations, as on 31 March 2020. This growth indicates a significant increase in tax base and a change in taxpayers' compliance behaviour.
- **Revenue collections:** While the first nine months of FY 18 saw a revenue collection of ~INR 7.4 lakh crore, FY 19 witnessed healthy growth with the government collecting ~INR 11.7 lakh crore. On the other hand, in the backdrop of rate reduction/ rationalisation over several products, the collections during FY 20 were below estimates and marginally grew at ~4 percent over FY 19 to reach INR 12.2 lakh crore.
- **Introduction of e-way bill system:** Barring the initial technical glitches, the e-way bill system has been largely streamlined. The total number of e-way bills (inter-state as well as intra-state) generated during FY 19 were ~56 crore; and with ~13% growth, this number increased to ~63 crore during FY 20.
- **Rate rationalisation:** The government continued to focus on rationalising GST rates. Although the overall rate structure remained same, a significant progress has been made in bringing down GST rates for various products. On 1 July 2017, ~19 percent items were under the 28 percent GST rate bracket; currently only 3 percent are subject to 28 percent GST. Now about 50 percent items are under the 18 percent bracket, ~21 percent face 12 percent, and ~25 percent are subject to 5 percent GST.
- **Legislative amendments and clarifications:** From its original shape and form, as on 1 July 2017, the GST law has undergone significant changes. With almost 700 notifications, 145 circulars, and over 30 orders, significant changes have been made to address taxpayers' demand, to carry out procedural simplifications and curb tax evasion.

The next section talks about some of the key areas that worked well for the government and taxpayers. It also discusses key challenges facing the industry and main areas where changes are expected in the near future.

What worked well...

Policy-related achievements

- Single unified legislative provisions across the country
- Removal of tax cascading and seamless flow of input tax credits
- Increase in taxpayers base and rationalisation of GST rates
- Widening of input tax credit allowance in some areas
- State-wise destination-based taxation of GST enabling the industry to set up a meaningful supply chain
- Hassle-free movement of goods across the country following the introduction of the e-way bill system and removal of check posts

Procedural simplifications

- Consistency in return details and filing across states
- Expedited and automated processing of GST refunds to exporters of goods and services (benefited the industry)
- Option of issuing a single debit/credit note for multiple invoices
- Clarifications issued on job-work related issues
- Rationalising the manner of utilisation of GST credit

Technology-related achievements

- Introduction of a single online GSTN platform for the entire country
- Smooth functioning of the e-way bill portal
- The government to embark on e-invoicing and a real-time, reporting-based GST return compliance platform

Key challenges

Policy-related challenges

- Restrictions on the transitioning of pre-GST credit, resulting in multiple litigations
- Ambiguity in anti-profiteering related provisions
- Disputes on some categories of service export revenues being sought to be denied export status
- Issues around "deemed supply" transactions amongst branches in country and related party transactions, in the country and cross border
- Blocking of credits and limited ability to seek refund, i.e., only on exports and inverted duty structure on goods
- Denial of input tax credit on the construction and setting up related capital expenditure
- Applicability of GST on some of employer-employee related transactions

Procedural challenges

- Blocking of input tax credit due to non-reconciliation
- Complex return filing process and issues related to functioning of the GST network system
- Issuance of unwarranted notices requiring a significant amount of time and energy
- Ambiguity over jurisdictions, particularly on tax audits and investigations
- Investigation authorities commencing detailed audits in some cases

Despite various hits and misses during the past three years, the government's efforts in responding to the industry's needs have been commendable. To continue the journey to build a world-class GST system, the following unresolved key GST issues faced by sectors are worth considering:

Sector-specific considerations

Energy, Resources, and Industrials



- Bring petroleum products and electricity under the GST ambit.
- Allow 5 percent GST benefit on solar power and wind power projects based on the actual value of goods and services, rather than a deemed valuation of 70:30.
- Abolish IGST on ocean freight under the reverse charge mechanism.
- Grant permission to procure fuel at a lower rate of Central Sales Tax, for use in manufacturing goods covered under GST.

Technology, Media, and Telecommunications



- Seek clarity on scope of intermediary services (due to the increasing trend of treating ITES services as intermediary services).
- Address related issues resulting in the denial of export refunds.
- Deal with challenges around tax collected at source (TCS)-related provisions for the e-commerce sector and removal of TCS.
- Consider the e-commerce sector's SME-related issues, including mandatory registration of sellers and detailed registration procedures in each state of warehousing.
- Permit input tax credit on telecom towers.

Consumer



- Specify the treatment of after sale discount schemes and incentives.
- Enable the facility to report consolidated debit/credit notes.
- De-link credit notes pertaining to after sale discounts with original invoices to claim GST adjustment.
- Allow input tax credit on free samples and expired goods.
- Provide clarity on applicability of GST on loyalty programmes.

Financial Services



- Allow the centralised GST registration to minimise the compliance burden.
- Exempt GST applicability of delayed payment interest.
- Allow centralised payment of GST on sale of repossessed assets.
- Clarify applicability of GST on a cost-sharing arrangement between two insurance entities (co-insurance and re-insurance).
- Remove requirement of input tax credit reversal on transactions in securities.

Considerations across sectors

Common considerations



- Allow refund of accumulated GST credit due to the inverted duty structure, triggered by input services.
- Clarify inclusion of employee cost on cross-charge transactions.
- Allow refund of GST paid on capital goods to exporters.
- Resolve disputes on some categories of service export revenues where export status is questioned.
- Permit payment of IGST on import of goods and services using accumulated input tax credits.
- Make input tax credit of CGST fungible across states.

Way forward

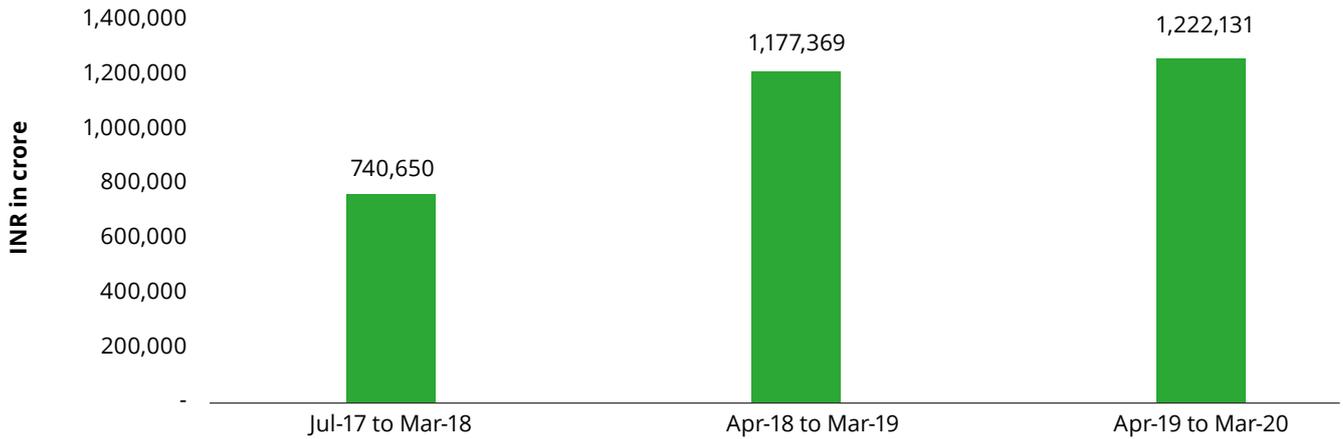
A world-class, simplified, and technology-enabled robust GST system is not only critical for a sustainable growth, but also imperative for the ease of doing business. In the next few years, the government may take steps to further simplify the GST law. These steps can prove to be a harbinger of growth at a time when the entire world is affected by

the COVID-19 pandemic. Implementing e-invoicing and new returns, rationalising GST rates, reducing litigations related to transitional credits, centralising advance ruling authority, having a single jurisdiction for audits and investigations, and strengthening the GSTN system would be the key areas to watch out for in the near future



Annexure

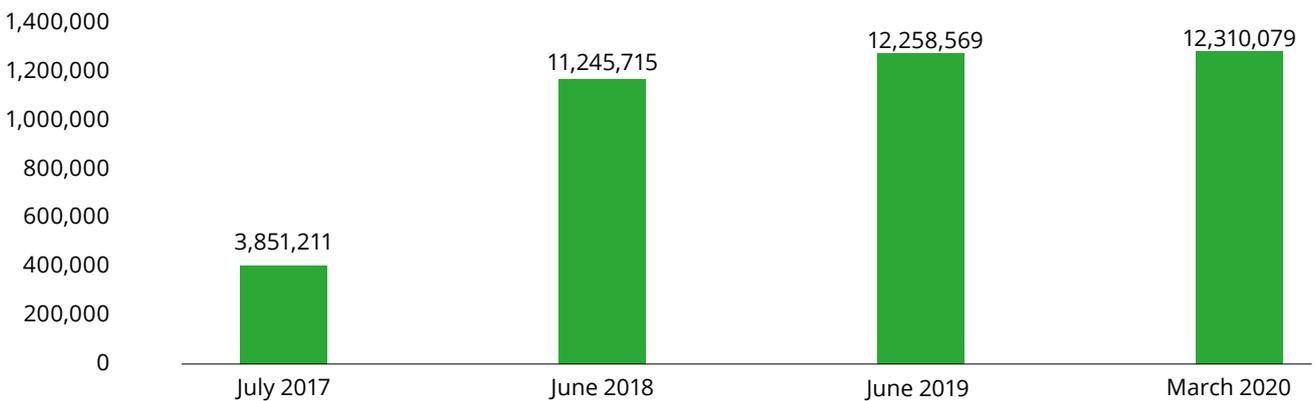
GST revenue collection



Source: <https://gstcouncil.gov.in/>

Revenue from GST collection increased over a period of three years, but is likely to decrease after March 2020, due to the COVID-19 situation. The revenue department has set a collection target of about INR 1.15 lakh crore per month.

Active registrations, as on 31 March 2020

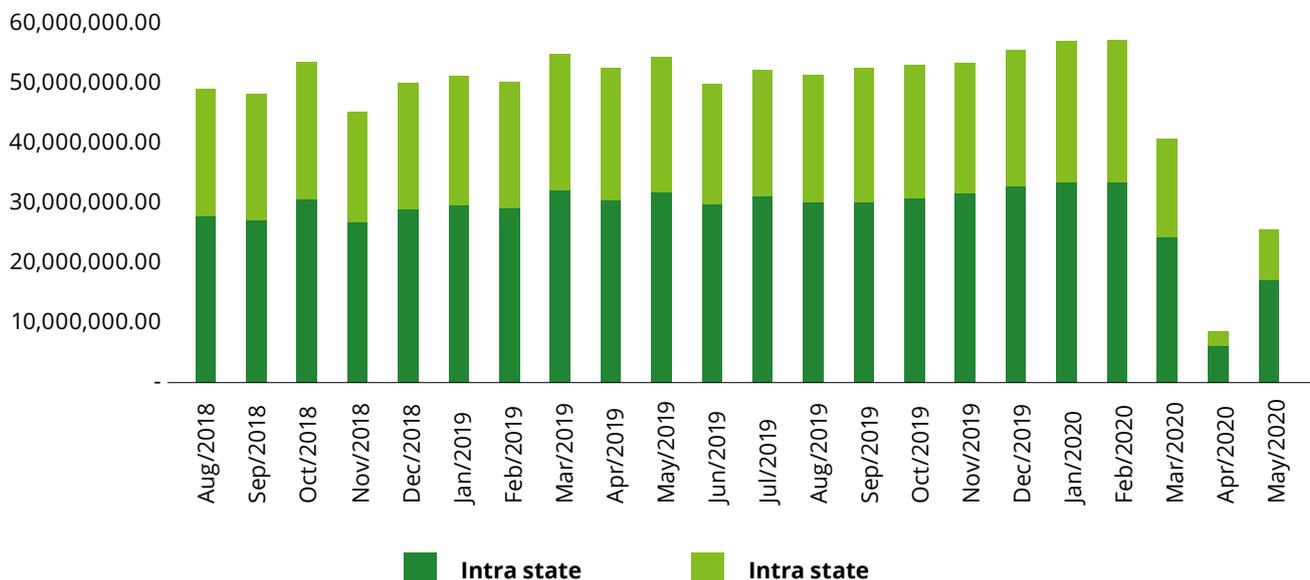


Source: <https://gstcouncil.gov.in/>

Active Registrations include Normal taxpayers, composition dealers, NR Taxpayers, UIN holders, ISD Registrations, OIDAR Service providers, Casual taxable persons and persons registered under GST TDS and TCS provisions.

GST registrations crossed the 1.23 crore mark, as on 31 March 2020. The government is looking to enrol maximum taxpayers under GST.

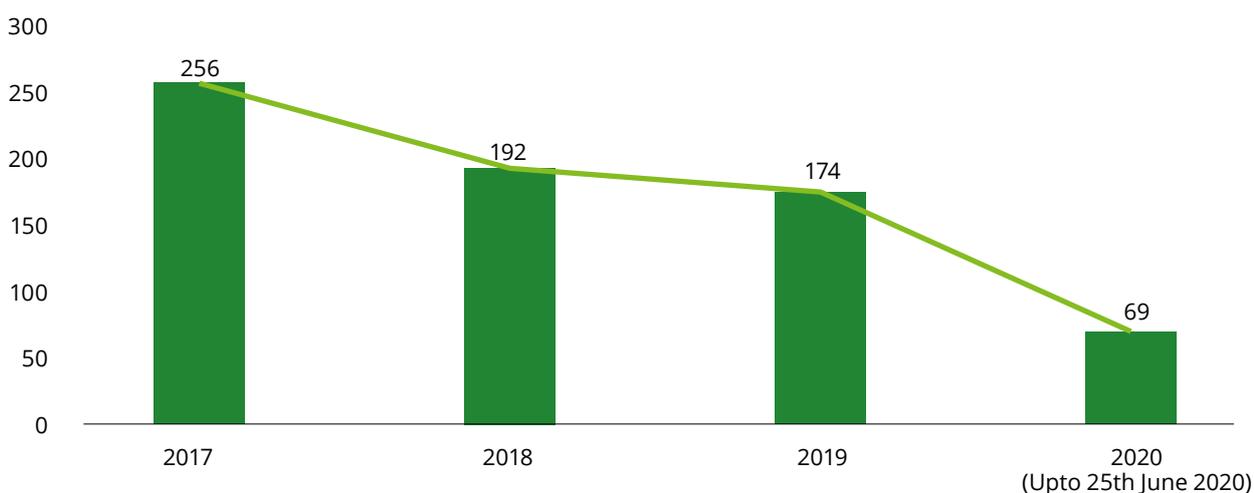
E-way bill generation | August 2018 to May 2020



Source: <https://www.gstn.org.in/>

E-way bill compliance has been steady for over a period of time but started declining from March 2020 possibly due to reduction in economic activity.

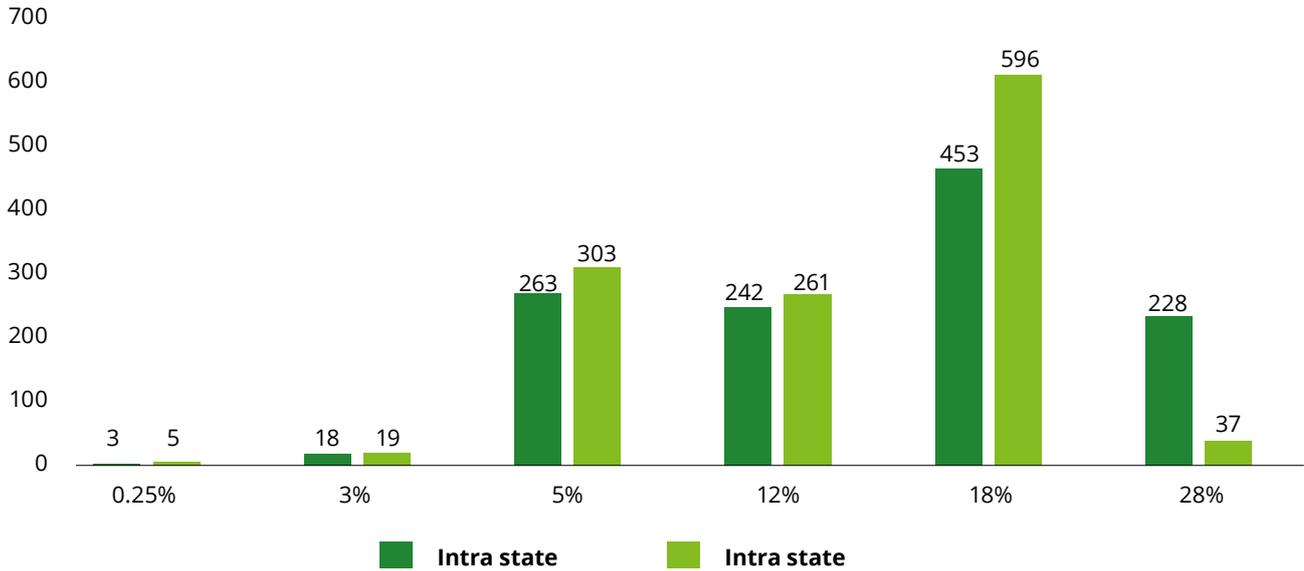
Trend of notifications issued



Source: <https://cbic.gov.in/>

The government issued about 691 notifications over a period of three years, to enhance the understanding of the GST law. The declining trend in number of notifications in past one year is welcomed.

Shift in tax rates for certain goods

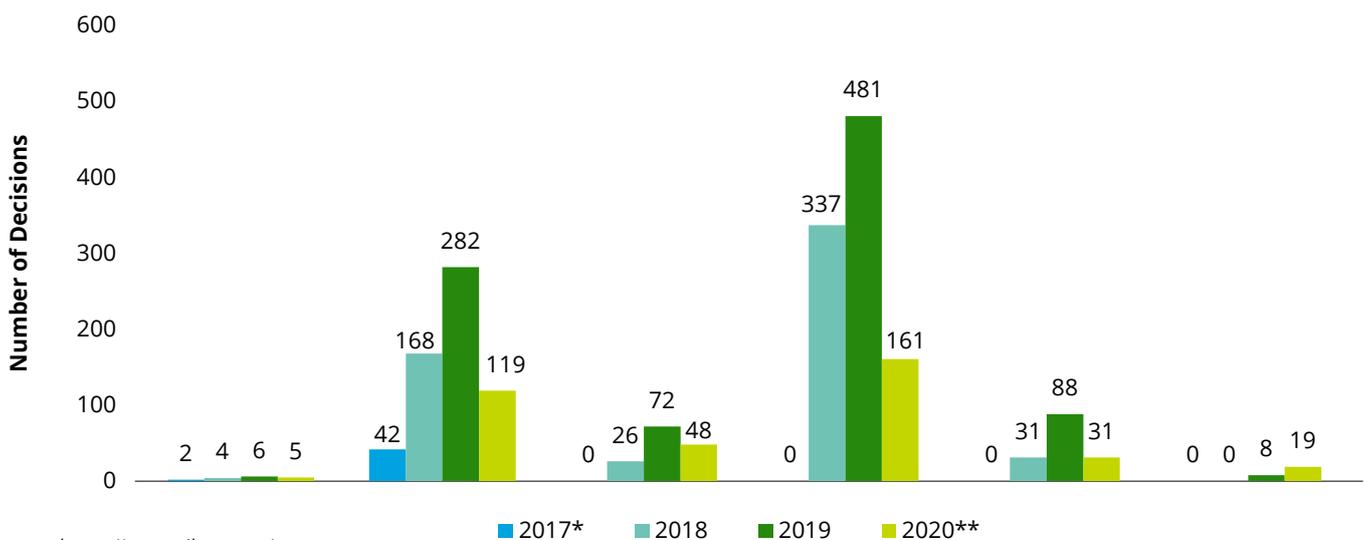


Source: <https://www.cbic.gov.in/>

*Only GST rates change that have been notified up to 25 June 2020 have been considered

The GST tax slab for many goods has been changed from 28 percent to a lower rate. The number of entries in the 28 percent slab has been reduced from 228 to 37 over a period of three years.

Decisions passed by various authorities



Source: <https://www.vilgst.com/>

*1 July 2017 onwards

**Up to 23 June 2020

The tax authorities pronounced fewer decisions in the past one year. Not many litigations have yet reached the Apex Authority and matters are lying before the adjudicating authorities/ advance ruling authorities.

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