GST and the Service Sector in India-An analysis

Vasudha Krishnamurthy[1]

Abstract

The new Goods and Services Tax(GST) is a unified tax structure that has been introduced in India after a 13 year long journey since its first mention in the Kelkar report- Task Force on indirect taxes, enacted on 1st July 2017 under the Constitution(122nd Amendment) Bill,2014.It is a value added tax which is imposed at each stage in the supply chain where value has been added. It is a single tax on all goods and services in the country. It aims primarily at refining the growth and opportunities of various businesses in India. It has helped innumerable industries in the economy by providing a uniform tax structure, easy compliance and eliminating cascading taxation, but has also caused detriment to many by causing an increase in operating costs, change in policy mid-year, making compliance and adapting to it a little problematic , thus triggering a mid-year disruption to several businesses. While some sectors benefit, others are put to a great disadvantage in relation to the previous tax structure. For instance, The tax rate for pharmaceuticals has increased from 10%-12%, causing them to shell out more than before, telecom sector is taxed at 18 %, as opposed to the previous 15%. The real-estate sector has had a decrease in tax rate at 12% as against its previous 18% tax rate. This paper attempts to analyze the impact of this tax system on the service sector in particular.

[1]Student, Alliance School of Law, Alliance University.

GST and the Service Sector.

The service sector of India covers a wide variety of activities such as Finance, insurance, real estate, Banking, Trade and commerce, Transportation, storage, communication, etc. India, being a strong services-led economy, the contribution of indirect taxes to the Government's Revenue has always been more than that of direct taxation. The service sector is undoubtedly a major contributor to the GDP of the nation. It has been a significant source of employment and has also served as a magnet attracting foreign investments.

Positive Impacts of GST on the Service Sector

Unblemished Distinction between Goods, Services and the Type of Supply

The old tax regime made no clear distinction between goods and services, often leading to a situation of double taxation. In the new system they have mentioned and distinguished it as principal supply, composite supply, and mixed supply. The taxation of such supplies is as follows- in case of a composite supply comprising of two or more supplies, the one which is a principal supply will be considered. Further, in case of a mixed supply, it shall be treated as a supply of that supply out of the many that has a higher tax rate attached to it.

The types of goods and services based on the RNR are- Exempted categories, Essential categories, standard categories and special goods and services. Ex: Services by the Reserve Bank of India, health and education, transport and communication and services relating to GST rate implementation respectively.

Reorganization of Taxation for Intra-State Service Providers

Due to the state level taxes being subsumed, it will become easier for service providers that operate within the state to know their tax obligations better. Such companies can move away from multiple tax calculations.

Further, by covering all states including Jammu and Kashmir, the tax payers are at an advantage unlike the previous tax regime that presented a disadvantage to other states as a result of non-applicability to J&K. A service whether rendered in Karnataka or Jammu & Kashmir will be treated and taxed in the same manner. Thus there is uniformity in all the taxation laws of or country and all states are at equal stance. Uniformity in tax laws across the country ensures better mobility of goods and services and thus ultimately increases the productivity levels.

Standardized and Systematic Return Filing

Under the previous tax regime, two half-yearly returns were to be filed in case of a business in the service sector. This has been replaced by the new provisions in the GST regime.

A registered dealer has to file his GST returns on his Sale, purchases, output GST on sales and input tax credit on the GST paid on purchases. In this system, three monthly returns and one annual return has to be filed by any person or association of persons carrying on a regular business. This adds up to 37 returns that have to be filed in a year. There is penalty for not filing the returns on time. The late fee charged is Rs. 100/day/act. (Rs 100 under CGST and Rs100 under SGST). This penalty helps ensure compliance of the provisions on time as no one would want to incur a fine.

Further, the taxpayers would not be required to maintain records and show compliance with a myriad of indirect tax laws of the Central and the State Governments, and would only need to maintain records and comply with the CGST, SGST and with the IGST for all inter-State supplies. Thus, the entire process of GST from registration to filing of returns is an online process and since it is technologically driven, it leaves little scope for human interference thus rendering the entire process more efficient.

Input Credit Facility Now Made Available

Under the new tax regime, input credit facility has been made available to the service providers, which was absent in the VAT system. Tax paid on any input can be adjusted as against the tax paid on an output, resulting in direct cost savings for service providers and may even offset the expected rise in end pricing. Invoice issues by the dealer, Receipt of goods or services must be there, and the supplier must have filed his returns to claim this facility. Taxpayer is allowed to take credit of taxes paid on inputs (input tax credit), as self-assessed, in his return. Taxpayer can take credit of taxes paid on all goods and services, other than a few items in the negative list, and utilize it for payment of output tax. This facility has been provided for through the mechanism of Input Service Distributor (ISD). By providing this facility to the Service sector as well, it has proved to be very supportive.

Besides these, it ensures transparency at every stage of the supply chain, helps the government authorities and the tax payers more easily ascertain the correctness of taxes paid, helps increase the government revenue as there are measures to ensure strict compliance with the GST provisions, and various benefits given to the healthcare and education sector.

Negative Impacts of GST on the Service Sector

Complicated Registration Process

Before GST regime could be implemented, there was a huge unrest among the service providers with regard to the chaos and burdensome registration procedure. A service company having multiple offices in India had to register in each state where they wished to carry on their businesses. To answer this, Arundhati Bhattacharya, Chairman of SBI mentioned that “In respect of GST, the fact of the matter is, we are dealing in services, to that extent there are certain challenges. First of all, there is no centralized registration. If you look at the other jurisdictions where GST has been rolled out, services always have centralized registration.

After the Act, this problem still didn’t find a solution. All entities in the service sector now have to register for GST, and those without proper registration would be refrained from collecting GST from the customers, The registration is mandatory if the entity has crossed the minimum threshold as prescribed or if they start a new venture which is expected to be above the prescribed turnover.

Mid-Year Switch

The fact that this policy had been introduced mid-year has created a lot of confusion and issues with regard to compliance. Had the Government waited until the next financial year, things could have gone better. A sudden change in the tax structure makes it difficult and this switch has definitely not been advantageous to the service sector. The service sector that used to be taxed at 15% suddenly had to start paying a rate of 18%. This has proved to be highly detrimental to all the service providers. When the taxation system will be analysed in FY 2017-2018, it will be seen that the businesses have followed old structure till July and new structure since then. Thus rendering this switch as inefficient and wasteful.

Predominantly Aims at Snowballing Government’s Revenue

The reason why all states have been brought under the purview of GST is mainly to increase the volume of Government revenue as opposed to the stance of the government claiming that they intend to bring uniformity in the taxation structure.

Services Have Become More Expensive

The service sector has been affected greatly due to the sudden increase in the tax rate from 15% to 18%. The earlier 15% included swacchbharat and krishikalyancess as well. The new regime has increased the tax rate by 3% and thus making all the services much less affordable. The tax structure that has been introduced to benefit the middle class has rendered its objective counterproductive by increasing the tax rate.

Technological Glitches & the Online Procedure

Although the GST council defines this process of online filing and registration as easy and more convenient to the public, is it really? India is a diverse country with diverse businesses. The small businesses are numerous in India and not all of them are as tech-savvy as they are portrayed. ‘Digital India’ is undoubtedly a fantastic idea, but how effective will it be in a country where over half the population is technologically unsound? India is still not at that position to go digital overnight and it is unfair to expect the small businesses to muddle through this drastic change in the filing and registration mechanism.

What can a Service Provider do to Ensure GST Compliance?

A service provider, subject to the GST tax regime, must ensure that his business abides by the law relating to GST. This can be achieved by the following means:

Filing of Returns Appropriately

All businesses must file their GST returns irrespective of the business activity and provide detailed information about it. Non-compliance with this attracts a penalty, which every service provider must avoid. The returns include sales, purchases, output and input tax credit paid.

GST Compliance Rating

Simply put, the GST compliance rating is akin to a performance ranking of all registered taxable persons which tells you how compliant they are with respect to the GST provisions. It includes cooperation with the authorities, payment made on time, taxes paid on time, how prompt the business is in filing returns,etc. A good rating implies a positive business and vice-versa.

Generating GST Invoices

Proper GST compliant invoices have to be raised and issued under the GST system. The issuance is done via a GST portal and information on both the buyer and seller are captured. For example, you need to mention your GSTN, customer’s GSTN, SAC on invoice.

Know the Law

The legal principleIgnorantiajuris non excusat applies to GST as well. The service provider must be aware of the provisions of GST, how it works, CGST and SGST,etc.He must also be aware of the taxes that have been subsumed into CGST and SGST and must be aware of IGST in cases of inter-state services.

Use a Suitable GST Accounting Software

The service providers have to maintain proper accounts as an unsystematic way of doing it will lead to failure of the business. They must choose a GST accounting software that is easily accessible to the members, supports multi-currency transactions, has systematic bookkeeping methods and manages and processes payrolls appropriately.

Conclusion

To conclude, GST has both pros and cons, but now that it has already been implemented and come in to picture, what we can do as service providers is to accept it and ensure that we comply with the provisions strictly so that no little mistake on our part causes detriment to our business. It is said that the implementation of the Goods and Services Tax (GST) would create a common national market and reduce the overall tax burden on goods. It is expected to reduce costs in the long run on account of availability of GST input credit, which will result in the reduction in prices of services. This move by the government has its cons, like technological glitches, sudden change of policy mid-year, numerous filings, etc., but has also proven to be very beneficial in removing inefficiencies in the multiple taxation structure. Although things are rough now, we must keep going as once these issues are addressed the economy and the taxation structure will soon become immaculate. The service sector must gear up to manage the business more efficiently and wisely. This can be done by equipping the right workforce, procedures, technologies and other resources. We can achieve the objectives of GST if we utilize our resources to the optimum and simultaneously comply with the law.