

Businesses Have To Learn To Live With the GST Regime

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Abstract

The Goods and Services Tax (or GST) regime has been accorded a mixed reception in the country and understandably so. More than everything else, what jolted businesses was the regime's almost total dependence on the online format (digital technology) for implementation of GST. In India, there are sectors namely the formal sector and the informal sector. The former do not depend much at IT-driven compliance while the latter do. The informal sector extended a cautious welcome to the GST. However, the informal sector players should realise that they cannot remain a lone wolf for long in a world that witnesses globalisation in the business arena, on a daily basis. They should join the mainstream, help the country enlarge its tax base and help raising the ease of doing business in the country. Eventually, this will help the informal sector players too in terms of superior revenues, healthier margins and improved market share. However, businesses, in particular, smaller businesses, have to seek the help of GST professionals in the GST compliance exercise. Because, for example, when businesses err by recording the tax paid against reverse charge, a default is deemed to have been made on tax payment all the same and attracts penalties. The business concerned has to wait to seek refund through the input tax credit or ITC route!. To escape from being branded a defaulter, the business has to cough up a similar amount of money from its kitty and wait for the refund to arrive through the ITC route!. Similarly, excess payment made into IGST cannot be used to cover a CGST shortfall and vice-versa!. Against this background an attempt has been made in this paper to study the various learning's the business should learn to live with the new GST regime

Keywords: CGST; IGST; inclusive tax base; input tax credit (ITC); reverse charge; SGST

1 Introduction

The Goods and Services Tax (GST) regime was rolled out in India on July 1, 2017. The country's trade, industry and the community of service providers welcomed it with caution. The GST regime entailed a sea change in the indirect taxes arena targeting, among other things, a more inclusive base of indirect tax payers, without at the same time affecting the interests of the formal players

1.1 Statement of the Problem

Though well intentioned, the implementation of the GST regime was not smooth. Inadequately trained human resources and IT infrastructure bottlenecks in particular presented a formidable challenge to all the stakeholders. Hence, it is necessary to ascertain how manufacturers, traders and service providers have perceived the GST regime.

1.2 Review of Literature

1. The GST has failed to live up to the hype. If anything, it has proved a nightmare for businesses in the short-term (Noor, 2017). In particular, those in the informal sector have borne the brunt. The single most overarching problem is that both the Centre and states have the power to collect tax unlike other countries where a single agency is empowered for the purpose.

2. The GST Council has lowered the rates on 27 items, including yarn and sewing threads to soothe the textile industry that has been crying foul at GST norms. The textile industry is a major job-creator (The Hindu, 2017). The six-month suspension of the reverse charge mechanism that required large firms to deduct tax on supplies from firms outside the GST net is welcome. The assurance on faster tax refunds for exporters would help address their working capital crunch. Time alone can reveal how smoothly these decisions pan out on the

ground. Suspension for six months of the payment of integrated GST (IGST) on inputs used for exports will bring immediate relief.

1.3 Research Gap

The reviewed literature has brought out the teething problems that the GST regime has given rise to. But, there are other problems. They are of a procedural nature and they need to be addressed too. It is this gap the present study proposes to address.

1.4 Scope of the Present Study

The study covers 30 businesses and 30 GST consultants

1.5 Objectives of the Study

The study seeks, inter alia, to ascertain and analyse the views of stakeholders on the GST regime

1.6 Hypothesis Proposed To Be Tested

The study proposes to test the following hypothesis:

1. Businesses have to incur additional operational costs in the GST regime

1.7 Research Design

1.7.1 Research methodology

The study is descriptive in nature and has used the 'fact-finding' survey method

1.7.2 Sources of data

Data required for the research has been collected from both primary and secondary sources. Primary data has been collected by administering Interview Schedules to the respondents, namely, businesses and GST consultants. Secondary data has been collected from the web sites of the department of revenue of the government of India and the web sites of trade bodies like FICCI, CII and ASSOCHAM and the financial press.

1.7.3 Sampling plan

Businesses: Given the limited availability of businesses operating in the area selected by the researcher for the study, purposive or judgement sampling under the non-probability method has been deployed. The researcher selected 30 businesses that he regards as the most appropriate ones for the study. This criterion is ideal for the present study. What are important are the typicality and the relevance of the sampling units to the study and not their overall representativeness to the population. It guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

GST consultants: Given the limited availability of GST consultants in the area selected by the researcher for the study, purposive or judgement sampling under the non-probability method has been deployed. The researcher selected 30 such consultants that he regards as the most appropriate ones for the study. This criterion is ideal for the present study. What are important are the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. Thus, it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

1.7.4 Data collection instruments

Interview schedules, specially designed for the purpose, were administered to the respondents for collection of primary data.

1.7.5 Data processing and analysis plan

Non-parametric statistical units have been used to test the association between some qualitative characters and conclusions have been drawn based on formation of H_0 and H_1 . To be specific, chi-square test has been applied to test the hypotheses.

1.7.6 Limitations of the Study

Primary data could sometimes be deduced through constant topic-oriented discussions with the respondents and other stakeholders. A certain degree of subjectivity, even if negligible, could have clouded their views. However, the researcher is confident that the subjectivity has been too insignificant to affect the accuracy of the findings of the study.

1.8 Businesses

In the following paragraphs, the primary data collected from the 30 businesses is analysed.

1.8.1 Views on the GST regime

Several views are doing the rounds on the GST regime obtaining in the country, particularly as to its application to the SME segment. Hence, the researcher requested the respondents to disclose their views on the GST regime. Their replies to the query appear in the following Table.

Table-1 Views on the GST regime

Views	Number of respondents	
Businesses have to invest in software solution	27	
Businesses / SMEs with a lower turnover have to choose between a lower tax slab and loss of input tax credit (ITC)	27	
Businesses have to incur additional operational costs	25	
Complying with GST is an onerous task	23	

27 respondents cite that businesses have to invest software solution. 27 cite that SMEs with a lower turnover have to choose between a lower tax slab and loss of input tax credit (ITC). Businesses have to incur additional operational costs, cite 25 respondents. Complying with GST is an onerous task, cite 23 respondents.

1.9 GST Consultants

In the following paragraphs, the primary data collected from the 30 GST consultants is analysed.

1.9.1 Views on the GST regime

Several views are doing the rounds on the GST regime obtaining in the country, particularly as to its application to the SME segment. Hence, the researcher requested the respondents to disclose their views on the GST regime. Their replies to the query appear in the following Table 2

Table-2 Views on the GST Regime

Views	Number of respondents
Businesses / SMEs with a lower turnover have to choose between a lower tax slab and loss of input tax credit (ITC)	27
GST being an online regime, businesses have to revamp their compliance infrastructure	27
Excess payment made into IGST cannot be used to cover a CGST shortfall and vice-versa	27
When tax paid is wrongly recorded against reverse charge, the recipient has to pay the tax again and then seek refund of the first tax payment through ITC.	27
SME exporters had better take professional help to file GST returns.	27
Businesses have to incur additional operational costs	23

27 respondents cite that businesses have to invest software solution. 27 cite that SMEs with a lower turnover have to choose between a lower tax slab and loss of input tax credit (ITC). GST being an online regime, businesses has to revamp their compliance infrastructure, aver 27 respondents. Excess payment made into IGST cannot be used to cover a CGST shortfall and vice-versa, point out 27 respondents. When tax paid is wrongly recorded against reverse charge, the recipient has to pay the tax again and then seek refund of the first tax payment through ITC, cite 27 respondents. SME exporters had better take professional help to file GST returns, suggest 27 respondents. Businesses have to incur additional operational costs, cite 23 respondents.

1.10 Summary of Findings

In the following paragraphs, a summarised version of the findings arrived at in respect of the two categories of respondents is furnished.

✓ Almost 27 respondents cite that businesses have to invest software solution and another 27 cite that SMEs with a lower turnover have to choose between a lower tax slab and loss of input tax credit (ITC) respectively. Businesses have to incur additional operational costs, cite 25 respondents. Complying with GST is an onerous task, cite 23 respondents.

✓ About 27 respondents cite that SMEs with a lower turnover have to choose between a lower tax slab and loss of input tax credit (ITC). GST being an online regime, businesses has to revamp their compliance infrastructure, aver 27 respondents. Excess payment made into IGST cannot be used to cover a CGST shortfall and vice-versa, point out 27 respondents. When tax paid is wrongly recorded against reverse charge, the recipient has to pay the tax again and then seek refund of the first tax payment through ITC, cite 27 respondents. SME exporters had better take professional help to file GST returns, suggest 27 respondents. Businesses have to incur additional operational costs, cite 25 respondents.

1.11 Conclusion

Conclusions relate to the hypotheses. They are answers to the research questions. As explained, the following is the hypothesis proposed to be tested:

“Businesses have to incur additional operational costs in the GST regime”

Hence, H_0 and H_1 are as follows:

H_0 : Businesses do not have to incur additional operational costs in the GST regime

H_1 : Businesses have to incur additional operational costs in the GST regime

Based on the primary data collected from the respondents, vide Tables: 1 and 2, a chi-square test was applied to ascertain the association, if any, between the two variables. The following Table reveals the computation made using MS-Excel:

		Observed Values		
	<i>Category</i>	<i>Yes</i>	<i>No</i>	<i>Total</i>
	Businesses	25	5	30
	GST consultants	23	7	30
	<i>Total</i>	48	12	60
		Expected Values		
	<i>Category</i>	<i>Agree</i>	<i>Disagree</i>	<i>Total</i>
	Businesses	24	6	30
	GST consultants	24	6	30
	<i>Total</i>	48	12	60
		<i>Agree</i>	<i>Disagree</i>	
2	o-e	1.0000	-1.0000	
		-1.0000	1.0000	
	(o-e) ²	1.0000	1.0000	
		1.0000	1.0000	
	((o-e) ²)/e	0.0417	0.1667	
		0.0417	0.1667	
	<i>CV</i>	0.0833	0.3333	0.4167
	<i>TV</i>			3.8415
	<i>p</i>			0.9811

The calculated value of χ^2 is 0.4167, lower than the table value of 3.8415 for an alpha of 0.05 at one degree of freedom. $p=0.98$ is the inverse of the one-tailed probability of the chi-squared distribution.

Hence, the null hypothesis is accepted and the alternate hypothesis is rejected.

1.12 Researcher's Recommendations

1. Businesses / SMEs with a lower turnover have to willy-nilly choose between a lower tax slab and loss of input tax credit (ITC). There is no escape from it. They cannot hope to have the best of both worlds. The intention of the government is to formalise all productive economic activities without at the same time affecting businesses in the formal sector. A more assesse-friendly GST regime is difficult to think of.

2. Businesses do not have to necessarily invest heavily in software, for complying with the GST regime. Cloud-based software solutions are available free of cost. It can reduce the outlay on software solution significantly.

3. Businesses have to take the help of GST professionals and that is going to cost them some money. But, the dust will settle sooner than later. Until such time, SME businesses in particular have to just grin and bear it. After all, they stand to gain from other developments

like hassle-free filing of returns, relatively corruption-free business environment, shorter operating cycle triggered by quicker realisation of proceeds from sales.

1.13 References

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