An Open letter by Bharat Goenka

GST – Great or Gruesome

By far, the GST amendment will be the biggest step the country has taken in ensuring economic integration. While the draft law comes with a promise of economic growth, it poses several critical pitfalls that can adversely affect businesses in the country.

GST: Great or Gruesome

The trust deficit between the Citizens of India and the Government of India has plummeted to new depths when one reads the Draft GST Law (in case you have not read the draft laws, please click here to read it). In one fell swoop, a swathe of businesses is staring at their death knell – as instead of being the promising vehicle for growth, GST has the potential to destabilize all that is good. On the bright side, this is still a draft law – and corrections can be applied, so that GST indeed becomes the Greatest Simplified Tax regime, and the biggest economic event of Independent India. It has all the ingredients to become so. Why then, am I sounding the danger bells?

The most critical cause of failure of GST will be in the transference of responsibility and liability of tax remittance to the customers of a supplier (Section 16(11)(c))**.** Basically, the law postulates that if a particular supplier has failed to comply with the law correctly – by furnishing the correct returns (Section 27(3)) and/or making the correct payment (Section 27(2)) – then its' customers cannot avail the input credit, and if given, it will be reversed.

The origin of this provision lies in the history of tax avoidance through false representations by a small section of businesses[i] and the fact that it was not feasible for the Government to systematically contain this problem. With the framing of this law, the Government hopes that the market will self-weed out the bad eggs – which is not wrong in theory. What is wrong is not understanding the cascading consequences of doing this in practice – and the mayhem it will create. **While the effort for driving compliance will reduce, the consequential effect of businesses shutting down, and therefore collections going down, have**

not been treated seriously enough.

What exactly is the problem?

Let us understand this by visualizing a scenario.

Assume Business A operates on a retained margin in the range of 8-9% [ii]

Because it is (say) an SME, it buys without access to good credit terms. So, it has purchased goods worth 50,000, and with GST of 20%, it has paid Rs. 60,000 for the invoice. It now sells this at Rs. 55,000, with an applicable GST of 11,000 – so raises an invoice of Rs. 66,000 on Business B.

Business B is a distributor, operating on a margin of (say) 2% [iii]

Now, Business B is concerned that the input credit of Rs. 11,000 may or may not available to it, in case Business A is negligent in its compliance. Therefore, it refuses to pay the GST amount UNTIL it can be certain to get the input credit (which is an entire 'return' cycle away). So, it pays only Rs. 55,000 on an invoice valued Rs. 66,000.

Business A, in order to 'get' the balance due of Rs. 11,000, has to first finish all compliance requirements, including payment of Tax, when it has not yet 'collected' the Tax amount! In contrast, if Business B 'trusts' Business A and DOES pay the Rs. 11,000 – and if, for whatsoever reason (negligence, cash difficulties, mal-intent), Business A fails to complete the compliance, Business B will lose not just Rs. 11,000, but in effect, the 'margin' it makes on 10 other such invoices (since it operates on a thin margin of 2%)!

Critically, this is not just an 'invoice to invoice' problem. Business A probably supplies to twenty-thirty people, and each of its customers will not have access to input credit due to any negligence of Business A!

Apart from this, there are going to be enough collateral problems. For example, when the input credit is denied, will this be formally treated as a 'business expense' and not be taxed by Income Tax? Obviously yes! But at what point do I treat this as 'contingent expense'? Will my Advance Tax payments made on the assumption of 'possible write back' be accepted? If not, will I be reimbursed for the cash-flow cost I incurred? How do I report my end-of-quarter and end-of-year? Will banks fund me? Will insurance cover this risk? How much more working capital will I require? Will I be eligible for it?

When the input credit is uncertain and outside one's span of control, the correspondent questions which will arise – and correspondent litigations can only be imagined. The last two-three questions will kill a large number of businesses (SMEs, Distributors, Stockists, Industrial Retail, Commodity traders – who either work on wafer-thin margins, and/or with inadequate cash).

The reasoning of the Government is: people are today colluding (albeit in small percentages) to fraudulently take input credit when it is not due. Therefore, it is only fair to put this risk back on the citizen. It also reasons that because this is a small percentage, which will keep declining due to self-correction by citizens, it is not a 'great burden' – that is, the 'business risk' is small enough to be manageable.

The problem is not the 'management of a manifest risk' – the problem is the side-effects of cash flow, improper accounting, and reduced ability for people to trade with new suppliers and new customers – since there is uncertainty about the business outcome.

Is there a solution?

Of course. One of the greatest benefits of GST is that it is built ground up as a **technology-enabled-tax-system**.

In the past, it was not feasible for the Government to systematically mitigate the risk of fraud, since there was no practical human ability to keep track and trace the culprits – who could/would repeatedly create phantom organizations, and/or phantom invoices. Against this history, it is no wonder that the Government wants to control this menace!

However, GST gives extraordinary traceability. For one, it **fully eliminates the ability to have phantom invoices**. That alone, will massively reduce the problem. Secondly, with the near ubiquity of Aadhaar and the passage of the Aadhaar Bill, the Government MUST mandate that **all GST registrations are traceable to individuals based on their Aadhaar identity**. Now, the ability to repeatedly create phantom organizations which allow credit to be taken without correspondent payment will rapidly evaporate. And, of course, the sheer traceability of the individuals, and strong public actions showcased for deterrence, will NOW become effective.

While Tally has been working to ensure that the right software is available to all of you to simplify and manage your business when GST comes, it will obviously not help to solve this basic problem created by the law itself.

Conclusions

GST has all the ingredients to be Great. Making it practical and convenient, by removing this one MAJOR lacuna, will go a long way in its 'welcome embracement' rather than 'resisted embracement'. Being technology led, it also has all the ingredients to spiral upwards the trust deficit, rather than spiral downwards. If all of us, as responsible citizens of India, rally together to help make it Great, we will all live together in a Greater and Grander India.

Bharat Goenka, Managing Director.
Tally Solutions Pvt. Ltd.

GST & YOU- All your questions answered

How can you prepare your clients for GST?

- IT systems should align towards capturing records
    - So that, ITC can be substantiated on 1st Apr 2017
- Un- registered Excise manufacturers need to segregate excise component of closing stock of raw materials, semi-finished and finished goods
    - Enable them to claim ITC for closing stock
- If composite dealers choose to register as regular dealer under GST, they needs to

segregate VAT paid for closing stock, so that he can start claiming ITC.

- For all multi-branch transfers or inter-godown movements, GST will be applicable. Educate them about this change.
- GST Registration is PAN number based, unlike today where its VAT TIN number based. Educate client, who have multiple businesses.

What kind of software should you use?

Your software should assist you to

- Feed compliance data in the way you prefer
- Create party masters on the fly, therefore reduce date entry time
- Detect errors early during data entry, therefore reduce errors
- Keep track of changes in product masters and update automatically
- Reconcile seamlessly with your clients' data & GSTN data
- Simple to install and use
- Fast to allow input of data and to make corrections
- Reliable in tax calculations, and uploading data
- Secure to allow you full control of your client's compliance data

Will GST open up new opportunities to serve?

- Become a trusted partner to your client for compliance
- More businesses will fall into GST tax net
- Good technology product will allow you to serve more clients

What surprises can come up?

- Changes to Tax Rates & HSN Codes
- Differences in Tax calculation of suppliers and buyers
- Failure to charge right taxes for inter/intra state transactions
- Missed records of outwards for a regular dealer

- Avoid surprises later (2 months later, if buyer is composite dealer)

- Intermittent loss of Internet Connectivity

How can I positively influence client’s business?

Educate your clients on

- Quickly reconciling purchases, so that they can avail input credit. Influence cash flow.
- Optimizing Stock while moving to GST regime. Enable your client to improve utilisation of working capital.
- Avoiding multiple branches across states, if they were started only for compliance purpose. Help your clients to save operational cost.
- Upgrading from composite registration to regular registration, so that client can start claiming ITC. Influence cash flow.
- Possibility to register as ISD, if needed. Educate such clients on how to set off SGST paid in another state.

To know more and for any other assistance on GST

Please visit blogs.tallysolutions.com

Download the Tally for GST App from the PlayStore

Call us on 1800 200 8859

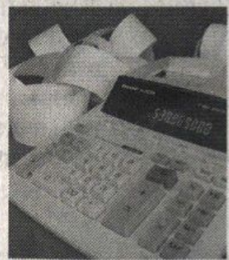
In News : Tally For GST

GST: CAIT ties up with Tally Solutions

Mumbai, October 14

To educate traders about Goods and Services Tax (GST) compliance and its seamless adoption, the Confederation of All India Traders (CAIT) on Friday said it has partnered with software product company Tally Solutions. CAIT and Tally Solutions will roll out a nationwide campaign to help traders understand the impact of GST on their business, the industry body said here. "The GST taxation system is different from current system.It will lead to the merger of excise, service tax, VAT and other taxes under GST. It is necessary to equip traders with adequate knowledge about the procedures and compliance formalities," CAIT Secretary General Praveen Khandelwal said. PTI

CAIT ties up with Tally to educate traders on GST



MUMBAI: To educate traders about Goods and Services Tax (GST) compliance and its seamless adoption, the Confederation of All India Traders (CAIT) said it has partnered with software product company Tally Solutions (TSPL). CAIT and Tally Solutions will roll out a nationwide campaign to help traders understand the impact of GST on their business. "GST taxation system is different and it is necessary to equip traders with adequate knowledge about the procedures and compliance formalities under GST," CAIT Secretary General Praveen Khandelwal said.

Assocham to train traders for GST

New Delhi, November 28

Industry body Assocham has tied up with software product firm Tally Solutions to educate and prepare the retail community for the rollout of Goods and Services Tax (GST). As part of the collaboration, Assocham and Tally Solutions plan to conduct a series of conferences for the retail community across the nation, over the next few months. Tax experts from government bodies will be participating in these conferences to help clear the air about GST, a statement said. PTI

Assocham ties up with Tally for GST

New Delhi: Industry body Assocham has tied up with software product firm Tally Solutions to educate and prepare the retail community for the rollout of Goods and Services Tax. As part of the collaboration, Assocham and Tally Solutions plan to conduct a series of conferences for the retail community across the nation, over the next few months. Tax experts from government bodies will be participating in these conferences to help clear the air about GST, by discussing the law and its implementation in these events, a statement said. — *PTI*

'GST is a Technology led Law with software as its interface'

Sathya Pramod, Chief Financial Offic - Tally Solutions Priva Limited in a chat wit VARINDIA throws ligh on the current GST la that is in the process of being implemente across the country and various pitfalls which t government should cons before presenting it as final law to the peopl

Goods & Services Tax (GST), according to Sathya Pramod, Chief Financial Officer - Tally Solutions is a "Once in a lifetime" change for all of us in the country, be it a business or an individual. Never has a change of this magnitude been tried by anyone. This is a welcome step to get all the indirect taxes under a single umbrella with 29 states, the centre and also union territories working as one. It is especially more commendable since this is forward looking by making technology as the engine which is pulling the change.

"We all know it is only with technology that we can scale and it is a right step forward by the government. As a business, one thing needs to be understood, it is a technology led law. There will be no paper transactions or any manual intervention. Everything happens through technology and there is a software which will be the interface. As a software company in the ERP business, it would be our endeavour to make the change seamless to the tax payer. Simplicity will be the key," asserts Sathya.

Limitations in GST Implementation

Goods & Services Tax Network (GSTN) is managed by a bunch of professionals with the right kind of support from the government. At the business level, companies are gearing up to provide the relevant solutions to their current users as well as prospective users.

However there are a few pitfalls which need immediate attention as these are unfriendly to trade and has the potential to derail the businesses.

“The first one being the manner in which Input Credit is granted. The government has put the onus on the tax payer to ensure that the tax has been remitted to the government, failing which the input credit will not be allowed.

The next one in the list is about taxing advances and determination of time of supply and treatment- Section 12 and Section 13 deal with time of supply of goods and services, whereby normal trade advances are also subject to tax. This again creates friction in trade as the concept of advances itself is misunderstood. If we look at why advances are paid, it is due to the fact that a commitment to the vendor is made for a certainty of a transaction, even though the supply is effected after a period of time. This would mean the input credit for the portion of advances would only be available after supply and claiming the final invoice on a procedural front it would create further complications.

Ambiguity in sales returns is the next challenge. There are a few ambiguities in the process of sales returns like –

- Let’s take a case where a supply happens from a manufacturer to a distributor who in turn supplies it to a retailer. Normally when the sales return happens, it happens between the retailer and the manufacturer without involving the distributor. There is no way of transaction matching since the original transaction and the sales return are between different entities. How should this be handled?
- Another case would be where a transaction has happened between a tax payer and receiver, the tax payer uploads GSTR1. However the receiver in this case does not respond with a corresponding GSTR2. In this case, to reverse the sales, the tax payer raises a credit note, but again the receiver may not respond to the same. The tax payer will land up paying the tax without any supply. This also applies to transactions where money back guarantees are involved.

Yet another challenge is Document Numbering. In general business practices, there are no restrictions on the numbering of any documents (invoices, debit notes, credit notes etc). However, the rules state that a number can only be unique only for a particular document. This has potential to create confusion, especially for small businesses who are not in the practice to create unique document numbers,” explains Sathya in details.

And so...

It is easy to dismiss saying that this is not good or it has lot of issues. But it is a mammoth task to change the entire gamut of indirect taxes in the country. There has been a lot of hard work put in by the government in working out further details and also taking public opinion about the law. There have been a lot of representations from the industry, associations etc. The Government should give due consideration to those and if they can manage to balance between the tax payer's needs and the government's wants, it would help.