

TAX UPDATE

MAY 2018

Summary of important decisions and recommendations of GST Council in its 27th Meeting on 4th May, 2018

The GST Council, in its 27th meeting held on 4th May 2018, has approved the Simplification of GST Returns based on the recommendation of the Group of Ministers on IT simplification. The Council has also decided to convert the GSTN into a fully-owned Government Company. Apart from the above, the Council has recommended to give tax-incentives in certain cases to promote digital payment and to set-up a Group of Ministers from State Governments to assess the proposal of imposition of Sugar Cess.

A summarized analysis of the said decisions and recommendations of the Council is as follows:

1. Return Simplification:

- i. **One monthly Return:** All taxpayers excluding a few exceptions like composition dealer shall file only one monthly return. Return filing dates shall be staggered based on the turnover of the registered person to manage load on the IT system. Composition dealers and dealers having nil transaction shall have facility to file one return on quarterly basis instead of monthly return.
- ii. **Unidirectional flow of invoices:** There shall be unidirectional flow of invoices uploaded by the seller on anytime basis during the month which would be the valid document to avail input-tax credit by the buyer. This would be applicable only in case of B2B transactions.
- iii. **Simple Return design and easy IT interface:** The B2B dealers will have to fill invoice-wise details of the outward supplies made by them, based on which the system will automatically calculate their tax liability and input-tax credit based on invoices uploaded by their sellers. Taxpayer shall be also given user friendly IT interface and offline IT tool to upload the invoices.
- iv. **No automatic reversal of credit:** In case of default in payment of tax by the seller, recovery shall be made from the seller, however, reversal of credit from buyer shall also be an option available with the revenue-authorities to address exceptional situations like missing dealer, closure of business by supplier or supplier not having adequate assets etc.
- v. **Due process for recovery and reversal:** Recovery of tax or reversal of input tax credit shall be through a due process of issuing notice and order. The process would be online and automated to reduce the human interface.

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vi. Supplier side control: Uploading of invoices by the seller to pass input-tax credit who has defaulted in payment of tax above a threshold amount shall be blocked to control misuse of input tax credit facility. Similar safeguards would be built regarding newly registered dealers also. Analytical tools would be used to identify such transactions at the earliest and prevent loss of revenue.

vii. Transition: There will be a three-stage transition to the new system of Return filing.

Stage 1 shall be the present system of filing of return GSTR-3B and GSTR-1. GSTR-2 and GSTR-3 shall continue to remain suspended. Stage 1 will continue for a period not exceeding 6 months by which time new return software would be ready.

Stage 2, the new return will have facility for invoice-wise data upload and also facility for claiming input-tax credit on self-declaration basis, as in case of GSTR 3B now. During this stage 2, the dealer will be constantly fed with information about gap between credit available to them as per invoices uploaded by their sellers and the provisional credit being claimed by them.

Stage 3, after 6 months of stage 2, the facility of provisional credit will get withdrawn and input-tax credit will only be limited to the invoices uploaded by the sellers from whom the dealer has purchased goods.

viii. Content of the return and implementation: Return shall also be simplified by reducing the content/information required to be filled in the return. The details of the design of the return form, business process and legal changes would be worked out by the law committee based on these principles. Government is keen to introduce the simplified return design at the earliest to reduce the compliance burden on the trade in keeping with the philosophy of ease of doing business.

2. Change in the Shareholding Pattern of GSTN: Presently, the Central Government and State Government each are holding 24.5% equity shares of GSTN and the remaining 51% is held by non-Governmental institutions. Majority of the GST processes including registration, filing of returns, payment of taxes, processing of refunds are IT driven and GSTN is handling large-scale invoice level data of lakhs of business entities including data relating to exports and imports. Considering the nature of 'State' function performed by GSTN, Council has decided that GSTN shall be converted into a fully-owned Government Company.

3. Incentive to promote Digital Transactions: The Council discussed in detail the proposal of a concession of 2% in GST rate [1% each from applicable CGST and SGST rates] where the GST rate is 3% or more, on B2C supplies, for which payment is made through cheque or digital mode, subject to a ceiling of Rs. 100 per transaction, so as to incentivise

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promotion of digital payment. The Council has recommended setting up of a Group of Ministers from State Governments to look into the proposal and make recommendations, before the next Council meeting.

- 4. Imposition of Sugar Cess over and above 5% GST and reduction in GST rate on ethanol:** Considering record production of sugar in the current sugar season and consequent depressed sugar prices and build-up of sugarcane arrears, the Council discussed the issue of imposition of Sugar Cess and reduction in GST rate on ethanol. The Council has recommended for setting up of a Group of Ministers from State Governments to look into the proposal and make recommendations within two weeks.

THE KEY

The Return Simplification measures shall substantially increase the effective compliance of GST Law and facilitate ease of doing business. The system-based availment of input-tax credit is no doubt a good initiative but it would lead to difficulties in case of mis-match like being faced in Income-tax in Form 26AS.

Further, the proposed concession of 2% in GST, subject to a limit of Rs. 100/- per transaction, in case of B2C supplies if the payment is being made through digital mode, to promote less-cash economy, shall act as an incentive for improving compliance with the GST Law.

In contrast with the aforesaid measures facilitating compliances, the proposal of Sugar Cess does not seem to be a step in the right direction and seems to be against the basic principle of the GST.

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