
Goods and Service Tax and Its Impact on STARTUPS

Dr. Amrish

Assistant Professor Amity University Uttar Pradesh

ABSTRACT

India has witnessed substantial reforms in indirect taxes over the past two decades. The Goods and Service Tax (GST) is one of the biggest taxation reforms in India, IT Just becomes the reality. The central idea behind this form of taxation is to replace existing levies like value-added tax, excise duty, service tax, and sales tax by levying a comprehensive tax on the manufacture, sale and consumption of goods and services in the country. GST is expected to unite the country economically as it will remove various forms of taxes that are currently levied at different points. Based on a 2015 NASSCOM report, India ranks third globally with more than 4,200 startups. Startups in India are expected to go beyond 10,000 by 2020. The promising startup verticals are Internet of Things, analytics, health tech and hyper local e-commerce. Based on the report, India received \$5 billion in funding in 2015, an improvement of 125 per cent growth year-on-year. In this paper I try to focus on the features of GST in context startups which enable INDIA to become a developed nation. India has witnessed substantial reforms in indirect taxes over the past two decades. This paper presents the background, silent features and the impact of GST on startup in India.

INTRODUCTION

India is a complicated tax regime. The Constitution of India empowers both the states and the centre legislatures to impose taxes. Over the period, this has led to several kinds of taxes which have made doing business very complicated for people in general. Also, complication means there are more ways to exploit the system. This is where the Goods and Services Tax comes into the picture. Goods and service tax or the GST as it is popularly known is a step to replace all the indirect taxes in the country which are in force at present. All the indirect taxes levied on any kind of goods and services whether by state government or central government will be consolidated and implemented through GST to help all the state economies grow equally and consistently along with the central economy.

Over past few years, the startup culture in India has evolved. Such startups can be both disruptive and innovative by re-imagining the traditional ways of doing business. Take the e-commerce sector, which has disrupted the traditional brick-and-mortar sales model to the electronic marketplaces model. There is a clear shift in Young India's preference towards entrepreneurship i.e., from job search to job creation and providing new opportunities to MSME.

Based on a 2015 NASSCOM report, India ranks third globally with more than 4,200 startups. Startups in India are expected to go beyond 10,000 by 2020. The promising startup verticals are Internet of Things, analytics, health tech and hyper local e-commerce. Based on the report, India received \$5 billion in funding in 2015, an improvement of 125 per cent growth year-on-year.

The government has also realized the need for startups as an important growth engine for the economy and society. In order to build a more conducive business environment, and for ease of doing business, the Government of India recently launched the startup campaign. A series of regulatory and tax-related perks and benefits have been proposed under the campaign for incubating growing startups. However, to further promote startups and create an environment for ease of doing business, reforms also need to be introduced from an Indirect Tax perspective (GST) is one such measure.

SIMPLICITY

One primary attribute required in any taxation policy is that it should be simple to administer by the authorities and to comply by the assesses. The tax laws should work hand-in-hand with the businesses so as to benefit the economy and society at large.

Under the present regime, startups are required to obtain multiple registrations under various indirect tax laws (depending on the nature of operations) i.e., state-wise VAT registration(s), service tax, excise and other state levies. Moreover, there are different thresholds and documentation requirements with such laws. Further, practically, there is a high degree of manual interaction and intervention required for obtaining the registrations, and to undertake compliances.

Under GST, based on the business process document on registration release by the Joint Committee of the Government, it is expected that there would be standardized and centralized registration cell for obtaining the indirect tax-related registrations. This is likely to reduce time and effort for startups, thus allowing them to focus on the business concerns rather than tax compliance and administration. Though the compliances under GST may increase (given multiple returns), such return filings are likely to be online and only at single central portal.

The chart shows all the types of taxes which will be eliminated at both central as well as state level.

Integration of Taxes under GST

GST

Central Taxes

Service Tax
Central Excise Duty
Additional Customs Duty
Special Additional Duty of Customs
Central Cess & Surcharges

State Taxes

Value Added Tax (VAT)
Central Sales Tax (CST)
State Cess and Surcharges
Octroi and Entry Tax
Purchase Tax
Luxury Tax
Lottery and Gambling Taxes
Entertainment Tax

GST Advantages For Startups

1. The production and distribution of goods and services are constantly increasing due to emerging Indian market locally and globally. A single taxation system would encourage new businesses and entrepreneurs to engage in service and manufacturing sector.
2. The significant aspect of GST is that this tax will be levied only on the final destination or on consumption of goods or services based on the value added (addition of value would be the taxable event). This helps to eliminate economic distortions in taxation amongst states and helps in the free movement of goods.
3. GST also seeks to reduce discretion exercised by the assessing authority. This means a more transparent taxation system with less corruption. Hence, better opportunities for new businesses.

4. The tax is levied on only finished product movement and not at every stage of production or distribution the complexity of taxation is sought to be removed by this.
5. Individuals will get benefit out of it as the prices will go down due to GST and decrease in price means increase in consumption. This increase in consumption will make the manufacturing industry to produce more and thereby directly helping in an increase in GDP.
6. Since the same tax implementation will be made in all states and for all types of businesses, they need not struggle due to lack of policy or any unidentified norms of the taxation laws.
7. Easing regulatory norms will not only benefit the new age businesses like e-commerce but also helps to attract more foreign investments from global markets which in turn will create more employment opportunities.
8. The ease of starting up a business in India will further encourage entrepreneurs to enter into the manufacturing and industrial sector. Currently several registrations such as VAT registration, CST registration, import/ export registration to get duty benefits are made. But eventually, after implementation of GST, this will be eliminated.

Several other indirect benefits for both government and business enterprises could also be achieved such as:

1. Elimination of delay due to transportation of goods. Uniformity in taxation throughout states will ensure clearances are done quickly.
2. The overhead cost of the goods will be reduced by the time goods reaches to the consumer.
3. The costs to maintain chain of supply of goods will be significantly reduced for the business organization.
4. The business-friendly tax will play a vital role to boost new startups in India.

Overall, for the country to come out of its complex taxation laws and to boost new entrepreneurs and startups in India the implementation of GST could be a step towards achieving that goal. The initiative of the current government to make the startups tax free for three years is a step towards encouraging the Major scheme i.e. Make in India.

In the Action Plan document on “Startup India” issued by the Department of Industrial Policy and Promotion, in order to reduce the regulatory burden on startups, the government has proposed self-certification compliances and no inspection (for the initial few years) by authorities for specified labour and environmental laws. Similar provisions should be introduced under the GST regime to further reduce the initial efforts of startups for obtaining registrations. The government may also consider setting up a separate dispute resolution panel for startups, wherein all the disputes viz. pending show cause notices, appeals are provided speedy disposal at a single window.

PRACTICAL CHALLENGES

While the government has brought about many positive changes in legislative provisions, the ground-level realities are very different. There are practical challenges in dealing with multiple tax authorities in terms of trying to explain the functioning of the new business models. It has been seen that the lower level officers lack the understanding of new business models, which is radically different from conventional businesses, both in terms of what these new commercial dealings are, and also how they are conducted. This is creating business impediments and obstacles to the growth and development of startups. Take for example, the e-commerce startups that are facing a host of issues in dealing with VAT authorities due to lower-level VAT officers' lack of understanding of the marketplace/aggregator models. Some of the e-commerce startups have even stopped operations in Uttar Pradesh due to objections raised by VAT authorities.

It is anticipated that the current state tax borders would be diluted to a large extent under the GST regime. India as a single unified market is likely to ease doing business across state borders and provide greater opportunities for improving business avenues. Other benefits under this aspect are:

- Efficiencies and reduction in lead times for transportation of goods
- Reduction in cost of storage and transportation
- Supply chain is expected to become the sole function of business requirements
- Development of warehousing hubs that are organised and closer to dense consumer geographies

One India One Market is expected to yield huge benefits and opportunities for startups, especially in the e-commerce and logistics sector.

The current tax framework of Indirect Taxes in India is a deterrent/irritant for many startups. There is a blockage of inputs credits, which leads to an increase in cost for the startups. Taxes like Central Sales Tax ('CST'), entry taxes, other state taxes like luxury/entertainment taxes are non-creditable. Further, credit of VAT cannot be used against output service tax and vice versa. This is expected to be resolved to some extent under GST as these taxes would be subsumed under the umbrella of GST. Increase in credits would help cut down on the tax cost for the startups and help them price their products more efficiently.

Further, it is generally a practice of the businesses in India to have warehouses on a state-wise basis. The purpose behind the same is not always the commercial consideration of being closer to consumer but also to enable buyers to take credit. CST, which is levied on inter-state transactions, is non-creditable and is a cost to buyer making inter-state purchases. By opening state-wise warehouses, credit of VAT is available to the buyers. Operating state-wise warehouses so as to pass the credit to the buyer is an inefficient model and adds to cost of operations. Under the GST regime, the distribution model is likely to be based on commercial considerations rather than due to an inefficient tax structure.

Another aspect of the current Indirect Tax framework is the emergence of ambiguities on account of multiple taxes levied by different governments. Further, the manner in which the provisions under the current law are worded leads to differing interpretations and disputes. For

example, many startups in India are focusing on software, applications and technology-based platforms. There are duplicate taxes on software, wherein both VAT (state VAT authority treats it as sale of goods) and service tax (central service tax authorities consider it provision of service) are charged on the same transaction. State governments in some cases have even sought to levy VAT on the service tax component charged by the software solutions provider. This is also true for the food and beverages sector, which has to deal with issues like the value on which the different indirect taxes would apply due to multiple taxes viz. service tax, VAT, luxury tax etc. GST is expected to remove the current levy of double taxation, thereby reducing the cost of end products and disputes that may arise due to ambiguity in laws.

BUSINESS-FRIENDLY TAX

It is important that a business-friendly taxation policy be implemented, which is unambiguous and clear in its content, intent and administration. It is hoped that GST would provide some reprieve and have a positive impact on growth and development of startups. GST is expected to reduce the burden of tax, disputes, facilitate ease in starting and doing business, and work in synergy with the businesses. It is important that such procedures and policies under GST are followed at the ground level or else, the same may prove to be regressive and full of inefficiencies like the current indirect tax regime.

Government of India is providing enough thrust for startups to flourish in India through a host of policies and exemptions, GST is one of them. As a startup the focus of the company and promoters has to be on business growth/expansion rather than tax compliance and procedures. In line with 'Ease of doing Business' theme, Goods and services tax would assist business in multiple ways starting with the registration process. With all processes being moved online and the concept of deemed registration, starting a new business would now be instant. Startups having multiple branches across country would benefit from uniform tax laws across as opposed to varying procedures for filing returns, making payments etc. under the current VAT regime. With high rate of failures in startups, under GST closing of registration and winding operations also would be easy.

New age startups in areas as e-commerce, digital payments, online services (food, grocery, personal care, healthcare etc.) face regulatory hurdles primarily due to the tax laws not being updated as per emerging business practices. The complex nature of business (Goods + Services mixed at varying proportions) makes it difficult to define taxability under prevailing VAT or Service Tax laws. Issues faced by Flipkart and Amazon with VAT authorities of various state governments stands testimonial to this. Emergence of India as a common, uniform market (local and interstate supply would be tax neutral) helps startups to quickly expand their business without requiring to open branches or warehouses in each and every state.

Cash flow is the lifeline of any business and in the current system there are multiple hurdles for smooth cash flows. CST on interstate sales is non-creditable, input services cannot be set-off against VAT liability and vice-versa, refunds of credit is cumbersome and time consuming, collecting of statutory forms (C, F, H etc.) is another huge exercise.

GST would address these issues by providing automated setoff, refunds, input credits and elimination of statutory forms. For software startups the biggest advantage would be application of single GST tax.

Currently VAT, Service Tax and Excise, all the 3 or two (VAT + ST) taxes are applied on software products and services leading to confusion and litigations besides causing price inflation due to cascading of taxes.

Thus startups will be empowered under GST and enable them to focus on business expansion.

REFERENCE

- i. Empowered Committee of Finance Ministers (2009). First Discussion Paper on Goods and Services Tax in India, The Empowered Committee of State Finance Ministers, New Delhi
- ii. Goods and Services Tax (GST) - A step forward (2013) available at http://articles.economictimes.indiatimes.com/2013-08-13/news/41374977_1_services-tax-statagst-goods-and-services
- iii. http://www.cbgaindia.org/files/primers_manuals/Primer%20on%20Goods%20and%20Services%20Tax.pdf
- iv. SAURABH GUPTA, MADHUR GUPTA, How „Impossible“ GST has become „Inevitable“ for India? NIVESHAK, Volume 7 Issue 1, January 2014, pp. 26-28
- v. Mr. Pranab Mukherjee, Finance Minister of India, Speech at the Union Budget 2010-11, February 26, 2010, available at <http://www.thehindu.com/business/Economy/article113901.ece>
- vi. <http://www.kotaksecurities.com/budget-2013-14/union-budget-2013-14/indianbudget-news/5-Points-to-know-aboutGST.html#sthash.BfPSt6Re.dpbs>
- vii. What is GST (Goods and Services tax)? (2013) available at http://www.moneycontrol.com/smemento_r/mentorade/budget-2013/what-is-gstgoods-and-services-tax-827592.html
- viii. Girish Garg, (2014), „Basic Concepts and Features of Good and Service Tax in India“,
- ix. Dr. R. Vasanthagopal (2011), „GST in India: A Big Leap in the Indirect Taxation System“, International Journal of Trade, Economics and Finance, Vol. 2, No. 2, April 2011
- x. Seventy Third Report Of Standing Committee on Finance (2012-2013), available at <http://www.prsindia.org/uploads/media/Constitution%20115/GST%20SC%20Report.pdf>
- xi. CA Rajkumar S Adukia, A Study On Proposed Goods And Services Tax [GST] Framework In India, available at <http://taxclubindia.com/simple/rajkum>