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GST Effect on Startups in India

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Abstract— **Goods and Service tax (GST) will going to be the new regime of Indian Economy w.e.f. 1st July 2017. GST rationalises this whole bucket of indirect taxes and makes an attempt to unify most of them for a destination base tax, thereby creating India a unified market. It's calculable that the GDP of the country can rise by one to two percent. Currently, there are more than160 countries in the world that have implemented VAT/GST. Though it's not an easy task to accept this new change; new regulations, to grasp the new system however with ample time given to industries/firms, with advance planning, timely release of legislative documents, proper conversation between businesses and administration regarding implementation and a reasonable tax rate will prove to aid in smoothening of the bill's implementation like in many countries. Start-ups which could be generally a company, an organisation or a small business or a partnership which is designed to speedily develop a scalable business model. Various Start-ups have varied impacts of GST, both positive and negative. Due to GST, several online sellers are cheerful because they will be able to balance total tax accountability against tax paid on expenditures on office stuff, which is currently not possible. On the other hand, online trading sites such as Amazon, Flipkart and Snapdeal have expressed their concerns over the 2 percent tax collection TCS, stating that it should be sellers who should be paying this tax.**

Index Terms— **Goods and Service Tax (GST), start-ups , e-commerce , online marketplace, tax, legislature, indirect taxes, GST council, business, GST rate, impact, manufacturing**

ALL ABOUT GST:

The long anticipated constitutional amendment to goods and Services Tax (GST) finally sees the sunshine of the day.

From July 1, 2017 onward, major taxes in India like excise duty; octroi, service tax, special additional duty and VAT are going to be subsumed into one tax known as GST. Goods and Services tax (GST) has been known as one of most significant tax reforms post-independence. It's a tax trigger, which can cause business transformation for all major industries.

The Goods and service tax bill passed recently by the Rajya Sabha and also the Lok Sabha has been obtaining lots of attention recently. Mainly because it's 'The Next big Thing' post the monetary Reforms of 1991 in the history of India's economy. We all understand that the multiplicities of indirect taxes have driven up the costs of goods and services. Moreover, they make taxation difficult. Further, these taxes are completely different in every state and businesses end up paying tax on taxes.

The whole GST dialogue has been going on since forever. the goods and Services Tax (GST) bill, that was 1st introduced in 2006-07 Union Budget and was scheduled to be implemented in 2010-11, was finally passed in Parliament in August last year (2016). Whereas the govt. is now considering the list of more than 5,000 product which will be taxed under the upcoming GST.

Given the passage of the Constitution (101st) amendment Bill, 2016 for GST in Parliament on 8th August 2016, approval of the aforesaid bill by over fifteen states by early September followed by its enactment, and passage of 4 GST Bills in Lok Sabha on 29th March 2017 and Rajya Sabha on 6th April 2017, with the clear road map being set down by the Finance Ministry, the govt. of India appears to be on course to implementing GST with effect from 1st July 2017.

The GST Council consisting of representatives from the Centre as well as the states, after being constituted, met on twelve occasions to debate varied problems as well as dual management, GST laws, exemptions, thresholds, rate structure, compensation cess etc. and reached agreement on the same. Council has conjointly suggested four-tier GST rate structure and also the thresholds.

The Bills introduced in the Lok Sabha, during the continuing Budget session of the Parliament, embrace Central GST (CGST), Integrated GST (IGST), Union Territory GST (UTGST) and also the Bill for Compensation to States. Discussion on the Bills was started on 29th March 2017 and passed on the same day after an extended discussion. As per media reports, the GST Bills, though introduced as money Bills, shall be taken up for discussion in both houses of Parliament before their passage in the current session. The Bills were earlier cleared by the GST Council, followed by a Union cabinet approval.

Before being introduced in the Parliament, the draft of the GST bill underwent few more changes.

SGST Act will be adopted by Union territories with legislature, i.e., Delhi & Puducherry and the rest of 5 Union territories without legislatures will adopt UTGST Act.

The road so far:

1986-87	The then Finance Minister, V.P. Singh presented the ModVAT , The basis for VAT, the first step towards GST
1991-96	The then finance minister Manmohan Singh started the service tax.
2000:	9 states created committees of the Finance Ministers to start VAT

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2005	vat began in almost all states, except Tamilnadu and U.P., the Center started compensation for 3 years
2006	The Finance Minister P. Chidambaram has proposed GST from April 2010
2007	The gradual end of central sales tax began , first phase of GST, GST Paper Release
2008	Framework of GST fixed, agreed on dual GST, Center-state will be separate law, levy and management
2009	The panel of State Finance Ministers released the first communication paper on GST.
Dec. 2009	13th Finance Commission's recommendations include GST.
2009-2010	The then Finance Minister Pranab Mukherjee released the paper, protest under the leadership of then Chief Minister Narendra Modi, GST Fail
Feb. 2011	The then Prime Minister Manmohan Singh accused Amit Shah of blocking the GST on the BJP
March 2011	The then Finance Minister Pranab presented a constitution amendment bill related to GST.
2012-13	Approval by UPA government to IT infrastructure for GST network.
Feb. 2014	The candidate for PM post, Modi said that BJP is not against GST but in the new system there is no IT infrastructure.
Dec. 2014	Finance Minister Arun Jaitley presented a revised constitution amendment bill
2015	Bill passed in Lok Sabha, Congress blocked the Rajya Sabha, said include our suggestions Subhramanyam panel's multiple GST rates offer
2016	The Government mobilized support for GST, Bihar - West Bengal's opposition, Congress talked of tax rate limit, Center agreed on compensation for 5 years
July 2016	The Cabinet approved the revised bill, suggestion from Congress-ruled states.
March 2017	The Government introduced GST as a money bill, related 4 laws passed
May 2017	There will be a meeting of the finance ministers or representatives of the centre and states in Srinagar.
1st July 2017	Date of the implementation of GST on behalf of the Government.

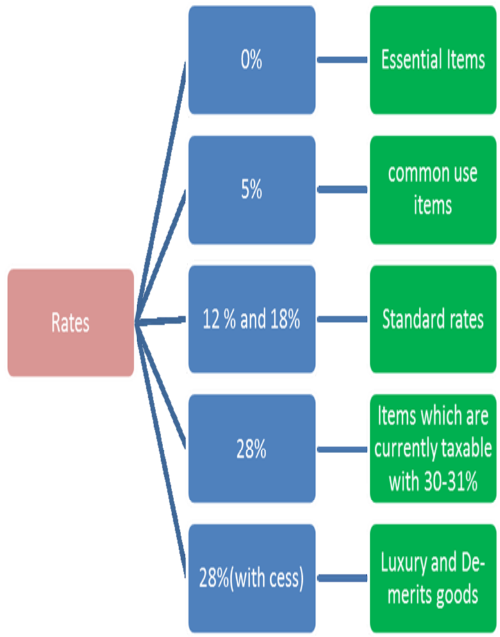
Meanwhile, Centre and States have already begun the enrolment procedure for migrating existing taxpayers to the proposed tax regime through GST common portal. All concerning GST:

• GST could be a destination-based tax which will replace the present Central taxes and duties like Excise Duty, Service Tax, Counter Vailing Duty (CVD), Special additional Duty of Customs (SAD), central charges and cesses and local state taxes, i.e., value added Tax (VAT), Central sales tax (CST), Octroi, Entry Tax, Purchase Tax, Luxury Tax, Taxes on lottery, betting and gambling, state cesses and surcharges and entertainment tax (other than the tax levied by the local bodies)

It will be a dual levy with State/Union territory GST and CGST. Furthermore, inter–state supplies would attract an Integrated GST, which might be the summation of CGST and SGST/UTGST.
Given that the companies in our country face many obstacles in handling twenty nine states, seven union territories and after all the central government, the uniform tax structure is certainly one thing to cheer. GST is deemed to benefit the companies of all sizes and nature; start-ups can also expect to look forward to better times ahead.

Petroleum product, i.e., petroleum crude, high speed diesel, motor spirit, aviation turbine fuel, natural gas are going to be brought under the reach of GST from such date as could also be notified by the govt on recommendation of the Council. Alcohol for human consumption has been kept outside the scope of GST.

Given below is GST tax slab for 2017 by GST Council on Commodities/Services:



A well-designed GST in India is predictable to modify and trim down the present tax regime, eliminate tax flow and place the Indian economy on high-growth flight. The projected GST levy might probably impact both manufacturing and service sector for the whole value chain of operations, particularly procurement, manufacturing, distribution, warehousing, sales, and valuation. It'll additionally stimulate the necessity to relook at internal organization and IT systems.

With its projected implementation from 1st July 2017 gaining intensity, it's crucial for corporations, that have business operations in India to know the broad contours and framework of the proposed GST law, possible impact of the new levy on their business and start taking suitable steps to satisfy its demand and be GST ready.

Integrated approach

GST is an organisation-wide transformational change that will impact the entire value chain of operations, including procurement, manufacturing, distribution, warehousing, sales and pricing.

GST has been envisaged as a more efficient tax system, neutral in its application and attractive in distribution. The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficiency

Destination principle

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

Taxes to be subsumed

GST would replace most indirect taxes currently in place such as:

Central Taxes	State Taxes
Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] Service tax Additional Customs Duty (CVD) Special Additional Duty of Customs (SAD) Central Sales Tax (levied by the Centre and collected by the States) Central surcharges and cesses (relating to supply of goods and services)	Value Added Tax Octroi and Entry Tax Purchase Tax Luxury Tax Taxes on lottery, betting & gambling State cesses and surcharges Entertainment tax (other than the tax levied by the local bodies) Central Sales Tax (levied by the Centre and collected by the States)

The key imperatives for companies are:

Understand key areas of impact in their business.

Prepare different scenarios for the design and application of GST.

Continually track policy development regarding GST and update prepared scenarios.

Identify any areas of adverse impact and prepare contingency measures.

Identify issues and concerns needing representations to the authorities and develop a strategy for effective advocacy.

Presently, with 4200 start-ups and a ranking of 3rd largest start-up network in the world, with 40 percent annual growth rate , the Indian Start-up society have a mixed feeling regarding the entire bill and also the impact it'll have on their businesses.

GST can further enhance the positive sentiment round the start-up industry of India in many ways:

1)Simpler taxation/ fewer tax compliance:

Adhering to totally different taxation rules in different states makes the taxation method more complicated and cumbersome. GST will make things easier by combining all indirect taxes, making one single tax to be paid by one and all. The tax calculations will be easier, thus saving time and energy for the start-up entrepreneurs to focus on the core competencies of their business instead of tax paperwork

Central GST would replace – Service Tax, Central Excise Duty, Duties of Excise, Cesses and Surcharges and Customs Duty

State GST would replace – State VAT, State Cesses and Surcharges, Central Sales Tax, Tax on Advertisements, Lottery, Gambling, Purchase Tax, Luxury Tax and Entertainment Tax.

This will additionally make sure improvement in the implementation of the tax system while cutting down on compliance rates whereby further ensuring a cutback in tax related disputes.

2) Simpler registration, easy to scale up:

VAT registration from the sales tax department is imperative to start a new business. However, a business operating in numerous states has to go after a range of methods and pay different types of fees in each state.

GST will bring uniformity, simplification and a centralized registration for companies. With GST, entrepreneurs have to just get a single license, and they are all set to do business in multiple states, as long as they pay the taxes. For start-ups, this will make possible to launch, expand or scale their business smoothly.

3) Higher exemption from taxes:

As per the current taxation laws in most states, VAT is applied uniformly to businesses with a turnover higher than INR 5 lakh. To lower the tax rates, businesses with revenue of INR ten lakh to INR fifty lakh will decide on the VAT Composition theme. However this theme has varied terms & conditions connected thereto, and isn't appropriate for every business. However, with the implementation of GST, businesses with revenue but INR ten lakh are exempted from GST; and businesses with turnover INR ten lakh up to INR fifty lakh are taxed at lower rates.

This will not solely reduce the tax burdens for start-ups however conjointly facilitate them to invest the money saved on taxes, back in the business.

4) Easy to run a business across all States uniformly: GST would replace VAT everywhere India. This suggests that a business wouldn't need to worry concerning maintaining with VAT compliances that are totally different in every state. Carrying out business activities will become relatively easy as they do not have to cope with totally different types of VATs levied in numerous states

5) Reduction of price anomalies: The GST will lead to the abolishment of lots of taxation bottlenecks at state borders and build the entire of India one single market. It will conjointly facilitate in reducing the presently prevalent value anomalies between different states in the country.

6) Logistic sector: Taxation software start-ups are progressing to see a boom in business. Since several Indian start-ups are within the e-commerce business and their supply prices goes up with eleven classes of taxes levied on the road transport sector, GST will facilitate them in drastically reducing their supplying prices by as much as twenty percent. Lots of on-line marketplaces have already started educating their sellers on GST compliance

Negative impact:

1) On manufacturing sector: GST may potentially build up an extra burden on start-ups in the manufacturing sector or the ones with a lesser turnover. GST is mainly related to the manufacturing sector, most manufacturing states may incur losses. However the government has proposed to compensate for those losses for a period of 5 years. As per the existing excise laws, a manufacturing firm with a turnover less than INR 1.50 crore is exempted from paying any duty. After GST implementation, this turnover limit might be reduced to 25 lakh INR, which can kill many start-ups. Start-ups in India who are presently operating in manufacturing sector have to follow a number of state rules/regulations and need to pay state taxes as well. In addition to this, many states have a level beyond which start-ups have to register for VAT, if a start-up has a turnover of Rs. 5 lakh. But under the GST, the threshold is 20 lakh.

2) The e-commerce start-ups will bear the shock as well: The TCS (tax collection at source) guidelines of GST state that e-commerce companies will have to file quarterly as well as monthly returns and collect the taxes from sales made on the portal. This will increase documentation and administration cost, the burden of which will ultimately pass on to customers in the form of higher prices of the products.

3) Food start-ups: Food prices may increase initially after GST implementation,, resulting in inflation. There is also vagueness whether mandi tax is included in GST or not. Such discrepancies may affect food start-ups. Exception: Grocery retailing start-ups are particularly happy with the government's GST bill as the govt has allowed 100% FDI in food retailing. These start-ups have a lot of service tax credit, and once the bill becomes operative, this service tax credit will get converted into GST credit. As of today, they are not able to make up for service tax credit against anything else. This way, GST may give them a lot of tax advantage.

4)Vagueness in Rate : The rate of GST is anticipated to be higher than the current VAT rate in India, which though reducing the price in the longer run, will be of no help in cutting down prices of commodities. The council is also yet to specify what would be the GST rate. The clear picture will emerge only after that.

5) Dual Control: A business will be indirectly controlled by both the Centre and the State in all tax related matters. The State will lose autonomy to change the tax rate which will be regulated by the GST Council.

6) Impact on other sectors: Segments that are presently enjoying no excise duty or have enjoyed a lot of tax benefits will have to bear the burden of a higher tax. These include Textile, Dairy Products, Media, Pharma, IT/ITeS, and Telecom. The same is applicable for products. It is supposed that the prices of the following commodities will increase – credit cards, mobile phones and jewellery.

The move may increase compliance in the short term as sellers ought to file a return thrice during a month, compared to the present method which needs them to do this once in six months. As per experts, once the bill comes into action, sellers ought to report their monthly sales by the tenth of every month, purchase by the fifteenth and consolidated statement by the twenty fifth of every month.

But in spite of its current drawbacks, GST is the most friendly tax reform ever in India. It seeks to bring transparency, simplicity and efficiency in the way business operate and government levies taxes. Start ups should hope for bright, clear skies as far as GST is concerned.

It is concluded that acceptance of GST will not be easy by people (general public), businesses and firms. Of course GST is proven to be an effective tax collection scheme regardless of the issues in its initial execution. GST will facilitate to start a business.

Presently businesses have to get VAT registration from sales tax department.GST implementation thereby lead to simplicity in taxation, ease in invoicing, ease of starting a new business. The GST bill is most probably do good for e-commerce users since the movement of goods between states will become quicker and cheaper.

While a majority of the start-ups believe that as and when the bill comes into action, it will help in reducing cross-border corruption between states, simplify the currently complicated taxation process, and let them claim the credit on taxes paid on expenses in their companies. On the other hand, Indian ecommerce biggies like Flipkart, Snapdeal and Amazon are worried about the rules related to tax collection at source, or TCS, which is a provision in the GST.

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