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A study on approach to indirect tax turnover

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Abstract
The National Institute of Public Finance and Policy's proposed method assesses the base in three steps. The goods base is first estimated at the level of the States. Data on actual collections and statutory rates are converted into a goods base to estimate this base. In other words, the estimation of the commodities base is based on the effective rate. The main presumption is that States collect revenues at the three rates—1%, 6%, and 14%—in a proportion that results in a total taxable base of Rs. 30.8 lakh crore in the absence of data for all the States. In the second stage, the services base is evaluated using 3.25 lakh enterprises' turnover data from the recently released MCA database (this base is estimated at Rs. 40.8 lakh crore). Third-stage changes are made to this base to exclude IT-related services due to their high export volume as well as the majority of real estate and financial services according to how these services will be handled under the GST. Then, taxable inputs utilised for service provision and services used as inputs into taxable manufacturing are deducted from the adjusted base using an input-output analysis. Coherent policy and efficient administration are needed. One potential benefit of a VAT over a cascading tax is that a tax-compliant company will want all of its suppliers to be compliant as well; otherwise, its input prices will increase by the tax amount that those suppliers have paid on their own inputs but cannot recover because they are noncompliant with the VAT's crediting mechanism. It can thus create "good" chains of compliance. However, by the same token, a noncompliant business desires that its suppliers do the same because, in such case, its input costs will increase by the full amount of the tax. Therefore, there can also be "poor" VAT chains. A fundamental administrative difficulty is promoting positive chains and preventing negative ones. The intrinsic power of a VAT can also be undermined by policy choices, possibly much more radically. Overly contrasting prices for distinct goods and services is one risk. The cost of administering and complying with the tax is undoubtedly increased by this; the lawyers, of course, love it. However, it could be a very ineffective strategy for attaining the goals of policymakers.

Keywords: Indirect tax turnover, group of ministers, goods and services tax

Introduction

The Group of Ministers (GOM) headed by Assam's Finance Minister, Himanta Biswa Sarma, has on Sunday recommended a few additional reliefs for small businesses, including a rise in the turnover threshold for the composition scheme from the recently raised Rs 1 crore per year to Rs 1.5 crore and a uniform rate of goods and services tax (GST) under the composition scheme of 1% as opposed to the current rates of 1%, 2%, and 5% for traders, manufacturers, and the rest. If these suggestions were to be implemented, smallness would become more desirable than ever.

Even the current system gives smallness the necessary seriousness. If you buy an air conditioner from a small merchant who is qualified for composition, the GST rate is 28 percent, but not on the total purchase price. He gets away with 1%, and so do you, despite the fact that he is not permitted to include GST in his invoice to the final customer and does not qualify for an input tax credit for amounts already paid by the supply chain.

In a nation where the last-mile retail margin is high, ranging from 30 to 40 percent in the great majority of cases with medications enjoying top-of-the-mind memory among the cognoscenti, the denial of input tax credit may not spell doom and gloom. In other words, the retailer's margin, which represents a value addition of somewhere between 30 and 40 percent, would escape with just a 1 percent tax rap on the wrist.

Because supply to and through online portals like Amazon or Flipkart does not qualify for composition, etailers would suffer greatly. Only small traders with an annual turnover of no more than Rs. 1.5 crore are allowed to sell ACs.

This translates into a monthly turnover of Rs. 12.5 lakh, which, assuming an average price of Rs. 25,000 per AC, results in a monthly sale of 50 ACs. Everyone should be satisfied as a result, including the small business owner and the final customer, with the possible exception of online portals who may feel humiliated at having their turnover decline in favour of the brick-and-mortar small businesses that abound in both our urban and rural market landscapes. ACs are really a euphemism for high-tax GST items.

If the smallness fever took hold of our industry and even the big players were wooing and conspiring to make it happen, there would be a massive loss of money for the exchequer. And Mr. Jaitley, what ever happened to your brilliant Hawaii chappals vs. BMW dichotomy? The need for five GST rates, as opposed to the one 18 percent rate proposed by the Congress, is something that Finance Minister Arun Jaitley constantly brings up. To the satisfaction of the Communists, he claims that while the luxurious BMW car must pay heavy taxes, the poor Hawaii chappals must only pay minimal taxes. But aren't you charging the figurative BMW, the AC, at 1% on up to 30% of its revenue, presuming that its last-minute retail margin is 30% and that customers are flocking to tiny stores in droves to buy ACs? In fact, if the nation experiences a smallness obsession unlike anything else, the government may regret adopting the one-size-fits-all GST norm. Given the enormous retail margins the nation is known for, the 1% tax he is unable to pass on to the customers won't be a problem at all.

The truth is that the government and its ministers have no idea what kind of challenges small firms encounter. Since the GST imports are already passed on to the final consumer, their challenges are more related to implementation and procedural issues. These require easing. India only has 40% of its population online, compared to Sweden, which has 100%. And even this 40% is useless because the majority of it is done over mobile networks, whereas GST uploading assumes and demands a strong broadband network throughout the nation.

GST Policies

The following four fundamental GST methods are available: Audits Evaluation of Demand and Recovery Advance Decision Inspections for GST

This procedure involves checking the legality and quality of the records that registered taxpayers provide and maintain on their GST accounts as well as evaluating the level of tax compliance.

One of the following two methods will be used to wrap up the GST audit process.

1. Audit by Registered Dealer: A CA or CMA must be hired by any dealer with an annual turnover of more than Rs. 1 crore to execute the audit on their behalf.
2. Audit by GST Authorities: For small dealers, the general audit shall be carried out by the GST commissioner in person or by a representative of his choosing.

The department may decide to hire a CA or CMA to undertake a special audit for instances that are complicated or have substantial income.

Payment under the GST

Verifying a specific taxpayer's tax liability is an element of the assessment procedure. The GST has the following 5 categories of assessments.

1. Self-Evaluation As the term implies, each GST registered taxpayer must self-assess his or her tax burden (and any applicable penalties) and file the necessary forms for each tax period.
2. Provisional Assessment: A taxpayer may ask a GST official to make a provisional assessment if he or she is unable to ascertain the taxable value of his or her goods or services or the applicable tax rate. The individual will then be permitted to submit tax returns and make provisional payments as directed by the officer.
3. Scrutiny Assessment: To determine whether a taxpayer's return is valid and accurate, a GST officer may perform a scrutiny assessment on his own initiative or at the authorities' request. The officer may request an explanation from the specific taxpayer if the return contains any irregularities.
4. Summary Assessment: When a full assessment cannot be completed in the allotted period or if the revenue interest will be harmed by holding off on disclosing the tax liability, a summary assessment is performed. To safeguard the revenue interest, the relevant official may produce the summary assessment with the joint or additional GST commissioner's approval.
5. Best Judgment Evaluation: The next two scenarios call for it.

Evaluation of not submitting a return: If a taxpayer fails to file their returns despite getting a notice, the proper officer will determine the tax liability using his best judgement.

Taxpayers who are not registered are assessed: The officer will determine the tax obligations of those who owe money but haven't registered for GST yet. The individual in question will receive notification.

GST Tax demand and recovery

The appropriate officer will issue a show cause notice to the guilty taxpayers who have not paid taxes, paid taxes that were inaccurate or incomplete, and/or claimed improper ITC or refunds based on the findings of the auditing and assessment of tax provisions and liabilities of various taxpayers.

Demands may be made in any one or more of the following circumstances:

when taxes are not paid, are paid incorrectly, or are not paid in full

When an individual or business collects tax but fails to deposit it with the government When an IGST-applicable supply received CGST/SGST payment, and vice versa.

The agency may begin tax recovery procedures if demands are unpaid even after the notice. Advance Decision

Before beginning a legal or other anticipated activity, the GST allows taxpayers to obtain in advance clarifications from the authorities on specific tax-related issues. The tax authorities will give the applicant a written decision or advance ruling addressing their specific questions.

How will GST affect India's event industry? Information on GST for various types of events: GST Rates for Events Not Providing Entertainment:

1) Conferences, seminars, marathons, workshops, training sessions, treks, and tours that formerly fell under the 15% service tax category would now come under the 18% GST tax category.

2) Events whose ticket prices are below 250 INR are free from the Goods and Services Tax. Therefore, this is wonderful news for small events with tickets.

GST Rates for events for entertainment:

1) Services that provide access to amusement facilities or admission to entertainment events, such as cinematograph film screenings, theme parks, water parks, joy rides, merry-go-rounds, go-kart racing, casinos, racetracks, ballet, and other sporting events like the IPL, are subject to a 28% tax with a full input tax credit.
2) Services involving access to a circus, Indian classical dance, including folk dance, a theatrical production, or a play would be subject to an 18% tax with a full input tax credit available.
3) Exempted services - Services by way of right of admission to a circus, dance, or theatrical performance, including a play or a ballet; an award ceremony, a concert, a pageant, a musical performance; or any sporting event that is not a recognised sporting event, where the admission fee is not more than Rs 250 per person.

Conducting entertainment events is made simple by GST, which is a major benefit. Managers of entertainment events will find it easier because they no longer need to visit the local department of entertainment taxes to obtain a NOC. You can immediately begin selling tickets and handle the GST payment as usual.

Approach to direct tax turnover

The Thirteenth Finance Commission described a third strategy that is based on utilising income tax information that is accessible for approximately 94.3 lakh registered enterprises (including companies, partnerships, and proprietorships but not charitable organizations). Ten sectors and 75 sub-sectors are used to group the data. These facts make it possible to determine the GST's prospective tax base. This technique produces a consolidated base for goods and services as opposed to distinct bases for goods and services, unlike the indirect tax turnover approach but similar to the macro approach.

Data on the value of supply of goods and services, which is the same as turnover and might include imports of products and services, is provided by the profit and loss statements. In terms of turnover, this results in a tax base of around Rs. 222 lakh crore. The output tax base is reduced to around Rs. 194 lakh crore when the exempt sectors are subtracted (petroleum, real estate's land component, the financial sector's interest component, electricity, gem and jewellery, health care, education, and agricultural products).

Next, purchases are separated into two groups: those that lower the base because input tax credits are available, and those that raise the base because they come from or are made by exempt industries.

13 Capital goods and intermediate goods and services (Rs. 183 lakh crore) are included in the first category (Rs. 6 lakh crore). The latter includes expenditures by exempt sectors ($25 billion), purchases of basic products ($11 billion), and expenditures from unregistered dealers ($24 billion). A 130 lakh crore rupee input tax base results from this.

The value added of businesses that will fall below the exemptions threshold (removed from the taxable basis), the alcohol sector (removed from the taxable base), and the rail sector are also adjusted (added to the base because this sector is not part of the data set in the first place).

Combining all of these results in a potential tax base of Rs. 58.2 lakh crore, producing an overall RNR of 11.98%.

GST with one rate: The price impact increases with the single rate. For instance, a 14% rate would increase the CPI by 0.7% if producers took the input-tax credit into account, and by 1.0% otherwise. Prices would rise by 2.5% under an 18% single rate, with or without input tax credits. (The sensitivity to various rates is shown in Figure 10) Clothing and pharmaceuticals may experience the biggest price increases. The (modest) increase in food and drink is primarily caused by the fact that several governments currently charge some basic foods (though not in all). The average tax rate increases significantly from the low single digits to the RNR because we have assumed that the current tax rate is an average of state tax rates.

GST having two rates, a reduced rate of 12% and a standard rate of 18%: This rate structure would roughly translate to an RNR of between 15% and 15%.5. Given the small portion of CPI that is taxed at the standard rate, an 18% standard rate would have a negative impact on CPI by 0.1% if all producers reacted to the headline tax adjustments, and a positive impact of 0% if they reacted after accounting for input tax credits as well. Food and drink prices would almost never go up under this dual rate structure, and neither would fuel and lighting costs, which is crucial for protecting customers with lower incomes.

GST with two rates, the lower of which is 12% and the higher of which is 22%: This rate structure would roughly translate to an RNR of between 17 and 18%. A 22% standard rate would result in a CPI increase of 0.3% if all producers responded to headline tax adjustments and by 0.7% if they adjusted for input taxes. This increase is a manifestation of hidden taxation, where the headline taxes may be modest but an increase in input taxes would raise inflation. The largest increases would be in the health sector (excluding medications).

MCCLURE cites a few negative effects of ineffective indirect taxation:

A differentiating tax system that taxes consumers differently for goods and services has negative effects on equality and economic neutrality. When compared to consumers with the same income level who choose to consume non-taxed or less taxed services, consumers with relatively high preferences for taxed items are at a disadvantage. The equity factor refers to the reality that households with higher incomes spend a disproportionate amount of their income on the acquisition of services. The choice of production methods depending on the sorts of inputs that are differentially taxed are distorted when full tax offsets are not provided to business firms. This has an impact on household consumption patterns as well.

The most damaging impact of an ineffective tax system is probably the taxing of capital goods without appropriate offsets to business. As a result, savings and investment are discouraged, and productivity growth is slowed.

The absence of a destination-based taxation policy between India and the rest of the globe as well as between states puts domestic producers at a competitive disadvantage.

Compared to other states, some states may have a more complicated tax structure. Complexity and inefficiency in tax administration at the state and federal levels are caused by improper cooperation.

Impact of the GST on the agricultural sector

The GST is anticipated to have a favourable effect on the agricultural sector. The largest contributor to India's overall GDP is the agricultural sector. It accounts for roughly 16% of Indian GDP. Many facets of society would be impacted by the introduction of the GST. The transportation of agricultural products across state lines in India is one of the key problems the agricultural sector faces. It is very likely that the GST will find a solution to the transportation problem. India's first national market for agricultural products may be made possible via GST. There are several details that need be clarified regarding agricultural product rates. For goods like milk, coffee, and tea, special reduced rates should be declared under the GST.

The current tax laws

Some foods, including rice, sugar, salt, wheat, and flour, are free from CENVAT. Grain and cereal products are subject to a 4% state VAT. According to the existing tax regulations, agricultural products are subject to several licencing requirements as well as a number of indirect taxes (VAT, excise duty, service tax). All agricultural products are currently subject to state VAT in each state, which they travel through before being consumed. Even so, there are some unprocessed food goods like meat, eggs, fruits, vegetables, etc. that are exempt from state VAT.

National market for agriculture (NAM)

The central government has unveiled a plan to promote the National Agricultural Market (NAM). A national agricultural market is one that involves all of the farmers and traders in the regulated marketplaces with a shared e-commerce platform for an open, fair trade of agricultural goods. NAM plan implementation would be difficult due to various state VAT and APMC (Agricultural produce market committee) laws.

GST is essential for laying the foundation for NAM's successful implementation. The GST would include the majority of indirect taxes currently charged on agricultural items. Each trader would receive an input credit from GST for the tax they paid on each value addition. By doing this, a transparent, hassle-free supply chain will be established, enabling unfettered movement of agricultural products throughout India.

The majority of agricultural products are perishable by nature. The time required for interstate transportation would be decreased by a better supply chain system brought forth by the GST. Farmers and retailers would reap the benefits of the time reduction. Some Indian states, including Maharashtra, Punjab, Gujarat, and Haryana, get more than Rs 1 billion in revenue from the CST, OCTROI, and purchase tax. GST would replace all the aforementioned taxes. Therefore, compensation for the revenue loss would be required from these states.

GST's Effects on the agricultural sector.

GST is crucial for enhancing the supply chain's timeliness, dependability, and transparency. Farmers and retailers would incur less expense and waste thanks to an improved supply chain structure. GST would also assist in lowering the price of the large equipment needed to produce agricultural goods. Dairy farming, poultry farming, and animal breeding are not included in the definition of agriculture under the draught GST law. As a result, they will be subject to GST taxation.

Previously, fertilisers, a crucial component of agriculture, were subject to a 6% tax (1% excise + 5% VAT). The tax on fertilisers has been raised to 12% under the GST system. On tractors, the similar effect is felt. A 12% GST has been implemented, and the tractor manufacturing waiver has been revoked. This is advantageous since manufacturers can now receive Input Tax Credit. India produced 160.35 million tonnes of milk in 2015–16, up from 146.31 million tonnes in 2014–15. The current VAT rate for milk and several milk products is 2%; however, under the GST, the rate for fresh milk is 0%, skim milk is kept in the 5% band, and condensed milk will be taxed at an 18% rate. One of the most important products in an Indian household is likely tea. Due to the 5% GST tax rate, which is higher than the present average VAT rate of 4% to 5% with the exception of 0.5 and 1% in Assam and West Bengal, tea prices may also rise.

GST's Effect on India's education sector

The Right of Children to Free and Compulsory Education Act of 2009 made education not only mandatory but also placed responsibility on the government to provide it at reasonable costs. The Council has excluded the educational sector from its purview. Transportation, catering, midday meals, admissions, exams, housekeeping, and other educational services offered by educational institutions to their students, teachers, and staff are free from the GST. The pre-schools and higher secondary educational institutions, both private and government-run, have been given the GST exemption. The services offered by the Indian Institutes of Management to their students via the following programmes are also exempt:

1. Two-year full-time residential PG programmes in management for Post Graduate Diploma in Management, admission to which is determined by the Common Admission Test (CAT).
2. Management fellowship programmes.
3. Integrated five-year programmes for management studies (but excludes the Executive Development Program).

The following entities are also free from GST while providing educational services:

- National Skill Development Corporation set up by the Government of India
- Sector Skill Councils that have been authorised by the National Skill Development Corporation
- Evaluation organisations recognised by the National Skill Development Corporation or the Sector Skill Council
- With regard to the following programmes, training partners approved by the National Skill Development Corporation or the Sector Skill Council are also included:

The National Skill Development Corporation's National Skill Development Program. a programme for developing occupational skills that is part of the National Skill Certification and Monetary Reward Scheme.

Any additional programme carried out by the National Skill Development Corporation."

1. Institutions of higher education and private institutions

Only pre-schools through higher secondary education are exempt from GST, and since universities and other advanced educational institutions aren't listed on the exclusion list, GST of 18% is anticipated to be applied to these services. Private higher education will become more expensive, increasing competition for admission to public schools, universities, and foundations. The cost of services will increase by 3 to 5% due to the obligation increase, which will eventually affect the average person. Middle class families that borrow money for their children's education or invest their life savings in sending their children to reputable schools will bear the brunt of the load.

Conclusion

Depending on the state, the GST's effect on the entertainment sector might be either favourable or unfavourable. Due to the inclusion of input tax credits, owners of theatres, parks, and other properties stand to benefit under the GST. The impact of any new municipal taxes, if any, must first be determined. Due to the temporary spike in the inflation index, an increase in the price of a few agricultural products is expected. Although the introduction of GST will largely favour farmers and distributors in the long term because a single, integrated national agriculture market will exist, GST would make sure that India's most productive GDP-contributing farmers could sell their goods for the highest possible price.

A thorough groundwork is the initial requirement for the GST design. Taxes ought to be imposed on all commodities and services. It has been discovered that the conventional strategy of exempting basic necessities and goods used by the low-income strata (such as food, medicines, health care, and education) is unsuccessful at aiding those in need. Rich people receive a disproportionate amount of their advantages. Additionally, they lead to categorization conflicts and complicate compliance, especially for small and medium-sized businesses. Such exemptions are not recommended by international best practises. A country that uses such a complete model is New Zealand. Real estate is a significant component of the tax base (land, buildings and structures). No distinction is made between moveable and immovable property in contemporary VAT jurisdictions, and tax is applied uniformly to both. The exclusion of land from the tax base creates a number of difficulties. Let's use the current system of labour contracts under the VAT and service tax as an example. The current regulations divide a works contract into three parts: the value of the services, the value of the land, and the value of the items. When contractors or subcontractors are involved in providing supplies, the division between the three components is ad hoc and arbitrary, which creates major complications when applying the tax. There is a lot of litigation about the definition of what a labour contract is. For instance, it is debatable whether a contract to sell an apartment before it is built qualifies as a work contract. Whether or not real estate will be subject to GST is unclear in the Constitution

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