

June 28, 2017

GST On July 1: What's The Impact On IT Industry

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GST (Goods and [Service](#) tax) is the highly discussed fiscal reform that would be implemented in the country from 1st of July 2017. GST policy will subsume various indirect taxes at center and state into the umbrella of Central GST, Inter-state GST, and State GST. This will remove the effect of double taxation and also the cascading effect of taxes i.e. tax on tax.

The union government is trying to improve administration and provide stable economic environment by making changes to the prevailing tax structure. Introduction of single tax will help to promote businesses for companies in India. For Indian citizens GST illustrates lowering of the tax burden on goods and services.

As the GST is able to simplify life of common man, the IT sector though is worried as GST would create challenges for IT service exporters and e-commerce players especially. IT industry which is already facing the issue of revitalizing the skills of its manpower for the [Digital](#) era, the changes in tax policy would aggravate the situation. The National Association of Software and Services Companies (NASSCOM) president R. Chandrashekar quoted that complex billing and invoicing requirements due to the supply and valuation provisions of the GST bill would complicate taxation for IT companies. The overall competitiveness of the IT industry would be compromised owing to the complexity.

Let's look at the list of challenges :

Service sector cost of compliance

Currently IT services are monitored under the simple administration where there is only one single point of taxation i.e. Central service tax and one single point of registration. As opposed to this under GST model, point of taxation has been increased to 111. This is because if the service industry has a presence all over India they would have to seek registrations in 37 jurisdictions i.e. 29 states, 7 union territories and one central region. Also we have three types of indirect taxes under GST, therefore multiplying three GST's with 37 will raise the final point of taxation to 111. This means that IT industry have to register and file compliance report at as high as 111 points.

So this could definitely prove to be a challenge for IT industry to move from single point to multi-point of taxation, thus dealing with center and state authorities ultimately increasing the compliance cost.

Complex Taxation

Erstwhile taxation of the service IT industry was carried out from the one central location from where the organization head office operates. But by the introduction of 'Place of supply' provision in GST, these billing and invoicing will be split depending on the end customer's address of residence. Thus service IT industry should obtain registration in those states individually to whom their end customer belongs. By performing such steps the state GST component of GST will be passed on to the states respectively. This whole system of multiple invoicing for same contract delivered under different states will complicate the already complex "TAXATION".

Taxes and its cascading effect

Cascading effect of taxes can be best explained with the help of an example. If an IT service provider delivers a service to the client. To deliver a particular service he requires some input cost (In our case assume IT software).

He acquired suppose the software for Rs 100 including the tax paid on it of Rs 10. During the service delivery he does value addition of Rs 40 and delivers the product making the gross value of deliverables to Rs 140. If the tax charged on the final end product is 10%, the tax on the output of good will be Rs 14.

- Under Prevailing Tax System

The product will be charged to the end customer at Rs 154 (Rs 140 + Rs 14)

- Under GST

The product will be charged to the end customer at Rs 144 (Rs 140 + Rs (14-10))

Here the service provider has the advantage under GST to reduce the input credit (Offset tax already paid during purchase) at the time of sell.

Thus in GST regime the cost of delivery to the client will be less and the cascading effect of taxes prevailing currently will be evaded. Also reduction in the transaction cost will increase competitiveness in IT industry market.

Transition from service tax rate to GST

Software services under current tax system are charged at 15% service tax. These services under GST rate will be charged under 18%. This will allow the IT service prices to rise for end customers.

Similarly the prices of the electronic packaged software (Software CD's) are currently charged at 15% service tax + 5% VAT which under GST will be charged at 18%. Thus reducing the net price of electronic software sold.

Thus, there are always pros and cons to every policy change by government, and GST is no different from this. Though it is a long term strategy, and the positive impact shall be seen in the long run only, GST will act as a future proof for Indian businesses to become workable. If Government keeps checking and addressing the concerns, ease of doing IT business won't be hampered. Also, it should keep rewarding the IT Industry, which is the power house contributor to India's GDP and economic growth.

[The author writes on topics related to GST compliance, tax planning and management. He is currently pursuing one year programme in Management from Great Lakes Institute of Management, Chennai]

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