FISME
FEDERATION OF INDIAN MICRO AND SMALL & MEDIUM ENTERPRISES
B - 4/161, Safdarjung Enclave, New Delhi - 110029
Tel: (+ 91-11-) 46023157, 46018592, 26187948, 26712064
Fax: (+91-11-) 26109470 I E-mail: info@fisme.org.in I Web: www.fisme.org.in

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FISME's feedback & suggestions on GST
Presented to GoM, GST Council, New Delhi

a. GST Structural Issues

1. Multiple GST slabs

Multiplicity of GST slabs has proved to be the biggest headache for MSMEs. It requires urgent review and corrective steps.

Suggestion:

i. The number of slabs be limited to ideally maximum three.

ii. The lowest slab covering essential goods and highest slab on sin-goods/ luxury goods. Rest all items should be in the mean or revenue neutral rate.

2. Delinking input credit from supplier's tax payment

In pre-GST CENVAT regime (and also in other countries) input credit is allowed while filing return of sales computing net tax payable thereon. Any reconciliation about supplier payment of tax is done later. MSMEs are hugely burdened in the GST regime where they cannot avail the credit even when they paid the full tax on their purchases. If we could do it earlier, we wonder why in the current GSTN network where every transaction could be tracked anytime, the system should deny this facility. MSMEs work on low margins and the current dispensation is bleeding them with burden akin to double taxation.

Suggestion:

Delink input credit from data entry/ payment of GST by suppliers. It would be the single biggest relief to small businesses and MSMEs.

3. Delinking C-form with GST

There has always been an enormous lag- often of years, for a seller to get the C form from the buyer. In GST regime, to claim ITC of VAT, Trans–1 form is required to be submitted along with C forms for all inter–state transactions until 30th June 2017. In the event of non-submission, difference between full tax and concessional tax will be deducted from the ITC due to be carried. (Problem is compounded for suppliers making supplies to projects where C-from is given after completion which may take 2-3 years). It is unrealistic to expect that dealers/ authorities will make the C-forms available instantly as desired by GST regime. Besides the immediate loss in transitional tax credits, the imminent deadline for claiming all transitional credits is causing panic among the MSMEs.

Suggestion:

i. The suppliers need to be given adequate time, at least an year to collect and submit the pending C forms and till then their transition credits may be allowed in full.

ii. If required, Government may devise appropriate safeguards to prevent misuse of the facility by the unscrupulous elements. Dealers may be asked, for instance, to submit an Undertaking and details of inter-state business such as name/GST or VAT number of dealer in other state to whom the transaction was made.

4. GST on advance:

One of the cardinal principles of GST is that the liability to pay CGST / SGST arises at the time of supply as determined for goods and services. It is erroneous and against the spirit of GST to levy Tax on the advances received.

Suggestion: GST on Advances received should be abolished forthwith.

5. Multiple accounts for Tax payment

At present a dealer has to maintain six accounts one each for making payments of SGST, IGST, CGST, Penalties, Fee and Interest. Cross utilization of cash lying to his credit in one is not allowed at present in the other accounts making it burdensome to keep separate balances in so many accounts and also blocking capital unproductively.

Suggestion: Cross utilization of accounts should be allowed across all accounts.

6. Composition Scheme

Composition scheme is good option for businesses especially those operate in B2C segment. However there are several exclusions which limit its utility.

Suggestions to make it popular:

i. MSMEs who do jobwork should be included under composition scheme
ii. Dealers selling tobacco products, ice creams etc. commonly sold in grocery stores should be made eligible
iii. For deciding Composition eligibility/ composition levy, exempted goods like loose grains etc. should not be clubbed with taxable goods
iv. Special guidelines need to be issued for the state check posts where goods consigned to/ by composition dealers are routinely held-up

7. GST on stock transfer detrimental to handicraft sector

There are over 3000 artisanal clusters in India spread all over the hinterland. Production of Handicrafts is peculiar: production is time taking and cannot be made against order instantly as in case of mechanised production. Secondly, in large number of cases they follow seasonal cycles in tandem with festivals (Diwali, marriage season) and seasons (winter or summer). Therefore, artisans keep producing and the goods are stocked to be sold on particular occasion. Thirdly, in many cases stocking is necessary due to logistics reason. (Kashmir Valley is cut off during winter after snow. There is no dry port in J&K. Goods have to be stored in Delhi or Mumbai for quick shipment).

Under the GST regime, GST is now levied on transfer of goods from one state to another. This has resulted in extra burden to the tune of 12% which remains blocked till goods are finally sold.

Suggestion:

Levying Tax on stock transfer is in itself a bad idea and it will increase transaction cost. Ideally a better solution should be found using technology. But till then at least the handicraft sector should be given relief and be spared of GST on stock transfer of handicrafts.

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b. Operational issues

i. Reducing burden of Tax Returns

Return should be quarterly for all, as right now if one is filing monthly and other is quarterly, there would be mismatch till 3 months and ITC would be provisional.

ii. Reversal of Credit

Credit of ITC is reversed if payment is not made to the vendor within 6 months. This provision is impractical and is likely to be misused by the authorities at the time of audit.
For example, if some material and/or service is purchased for some project or machine and 10-20% of the bill amount is under retention till the project/machine is commissioned successfully, which may take months and even years, how it is to be dealt with?

iii. Purchase from outside state: fungibility of CGST & SGST with IGST

If any goods/service is purchased from out of State and vendor charges CGST and SGST, instead of IGST, we should get the credit of that too. Why only local SGST/CGST is allowed?

For example, if one goes to other State and stays at a hotel, hotel will issue tax invoice by charging SGST and CGST, does the Government intend to deny this credit.

Another example may be that if one purchases some goods from other State dealer and asks him to deliver the supply within that State, supplier may charge SGST and CGST claiming that as the goods have not crossed the State boundaries SGST and CGST would be charged and not IGST.

iv. Obligation to register in other state: Services & Goods be treated at par

If total turnover of service provider is less then 20 lac (press release dated 06.10.2017), he is not obliged to have registration even if providing service out of State. The same should be extended to goods also.

Bangalore
57/5, Family YMCA Building,
Millers Road, Benson Town,
Bangalore - 560046
Tel: +91-80-23543589
Email: bangalore@fisme.org.in

Hyderabad
H. No. 6-3-569 / 1/2/4, 2nd Flr
Rockdale Compd, Somajiguda
Hyderabad – 500082
Tel: +91- 40- 23322117
Email: hyderabad@fisme.org.in

Chennai
No. 17/22, 1st floor, 4th Main
Road, New Colony, Chromepet
Chennai – 600044
Tel: +91-44-43848805
Email: chennai@fisme.org.in

v. Enable purchaser to upload debit/credit note

The vendor has to raise and upload the debit/ credit note on GSTN. This provision is creating problem, as many of the vendors are either not well acquainted or equipped to adhere to all the formalities with regard to GST provisions, hence facility of raising Debit/Credit Note and uploading the same on GSTN may be allowed to purchaser as well.

vi. Reverse Charge & dealers availing exemption

If any goods/service supplier has turnover below 20 lac and hence not required to get registration, enters into a transaction where RCM is attracted, he has to take registration and follow all rules. The provision is defeating the purpose of exemption.

A small business whose turnover is less than Rs. 20 lac is required to be registered and obliged to file returns etc. if GST under RCM is attracted, would not have been the intension of the Government.

vii. Tax Returns

Tax returns should aim to capture data either HSN wise or Tax rate wise transactions. Demanding statement of both only make it cumbersome for MSMEs who cannot afford dedicated software.

viii. Refund of ITC under Public Procurement

A large number of MSMEs supply to government, a separate application like that proposed for exporters should be devised to refund accumulated input tax credits on capital goods provide opportunity to evade tax on one hand and increases project cost, particularly in case of MSMEs, on the other. So much so that sometimes a project becomes unviable leading to discouraging investment.

28% GST on capital Goods and Intermediates

ix. Still many capital goods and components attract the highest tax rate. It might have conceived based on 12% excise duty and upto 15% of state VAT a few states had.

While the fact was that small industries was buying from inter states by paying 2% CST wherever higher VAT rate was applicable. Businesses, in general, are sceptical of getting refund from exchequer as per the past practices. GST rate should be kept at 12% on capital goods.

x. Decongesting GSTN

a. If 10 items are sold through an invoice, entry of each item sold is to key in for GSTR1 which explodes the data even if HS code is same or GST rate is same. The entries should be limited to GST rates or 4 digit HS code maximum.
b. E-way bill is likely to be introduced which would duplicate the work. A facility may be provided to raise the invoice through GST portal itself and option may be given to businesses. Those who opt to raise invoice from GST portal should be exempted from filing GSTR1.
c. GSTR2, which is yet open, would be a burdensome exercise as one needs to verify each entry of purchase also to mention mis-match and not-matched entries. The businesses be allowed to load there purchase and system should ask for mis- or not matched entries.