



## GST - ADVANTAGES AND DISADVANTAGES FOR STARTUPS IN INDIA

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**ABSTRACT**

GST also known as the Goods and Services Tax is defined as the giant indirect tax structure designed to support and enhance the economic growth of a country. More than 150 countries have implemented GST so far. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the tax came in to effect from July 1, 2017 through the implementation of one hundred and first amendment of the constitutions of India by Modi Government. This tax has many advantages and disadvantages for startups and tiny business in India. This paper highlights the advantages and disadvantages for startups and tiny business in India.

**KEYWORDS** : GST, Indirect Tax, Goods and service Tax

**Objectives of the study**

1. To find out the advantages of GST for startups in India.
2. To find out the disadvantages of GST for startups in India.

**Research Methodology**

The study focuses on extensive study of secondary data collected from various books, National & International journals, government reports, publications from various websites focused on various aspects of goods and services tax.

**Introduction:**

Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development.

**What is GST?**

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and

services at national level. The GST is expected to replace all the indirect taxes in India. At the

centre's level, GST will replace central excise duty, service tax and customs duties. At the state level, the GST will replace State VAT.

Goods and Services Tax better known as GST in India, is a new and comprehensive tax to be levied on sales, manufacturing and consumption of services and goods across the nation. Referred to as one of the biggest tax reforms in the country, GST is expected to bring together state economies and improve overall economic growth of the nation.

**Need For GST**

VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.

On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a predefined and pre-approved formula. In addition, it would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.

GST is a boost competitiveness and performance in India's manufacturing sector. Declining exports and high infrastructure spending are just some of the concerns of this sector. Multiple indirect taxes had also increased the administrative costs for manufacturers and distributors and with GST in place, the compliance burden has eased and this sector will grow more strongly.

But due to GST business which was not under the tax bracket previously will now have to register. This will lead to lesser tax evasion.

**Advantages of GST for startups in India.****Higher threshold for registration**

As per the current VAT structure, any business with a turnover of more than Rs 5 lakh has to get VAT registration and pay VAT (different in different states). Under GST this threshold is 20 lakhs thus exempting many small businesses including startups. GST also has a scheme of lower taxes for small businesses with turnover between 20 to 1 crore though its optional. It is called the composition scheme. This will bring respite from tax burdens to newly established businesses.

**Startups can enjoy tax credit on their purchases**

A lot of startups are into service industry i.e., they pay service tax. Under GST regime they can set off the VAT paid on the purchases (say office supplies) with the service tax on their sales which they cannot under current regime.

Thus it will be a big boon to the startup industry who are mainly providing services. It will result in reduction of costs thus increasing working capital to the already cash-strained startups.

**Online simpler procedure under GST**

The entire GST process starting from registration to filing returns and payment of GST tax is online. Startups do not have to run around to tax offices to get various registrations under Excise, VAT, Service tax.

**Simpler taxation**

Startups often work on tight budget and cannot devote resources to look after the various tax compliances under Excise, VAT, CST, Service Tax etc. GST will subsume all of this thus reducing the time spent for tax compliances. Also, startups dealing with both goods and services will find it much easier to file and pay one GST tax instead of both VAT and service tax.

**E-commerce and other online startups**

Many startups are technologically innovative meaning they have a huge presence online. Many startups provide goods and services through the internet. GST is applicable all over India so there is no complication for inter-state movement of goods. Currently, states have different VAT laws. For example, online websites (like Flipkart Amazon) delivering to Uttar Pradesh, have to file a VAT declaration and the registration number of the delivery truck. Tax authorities sometimes seize goods when there is a failure to produce documents.

Again, they are treated as facilitators or mediators by states like Kerala, Rajasthan, West Bengal not requiring them to register for VAT. All these differential treatments and confusing compliances will be removed in GST.

### Increased efficiency in logistics

The logistics industries in India had to maintain multiple warehouses across states to avoid the current CST and state entry taxes on inter-state movement. There have been cases where warehouses have to operate below their capacity thus increasing operating costs.

GST will unite India removing restrictions on inter-state movement of goods. This will bring warehouse consolidation across the country. As an outcome of GST, warehouse operators and e-commerce players have already shown interest in setting up their warehouses at strategic locations such as Nagpur, which is the zero mile city of India and is well connected.

Reduction in unnecessary logistics costs will increase profits for startups involved in supply of goods through transportation.

### Disadvantages of GST for startups on tiny business in India.

#### Confusing registration

The GST laws state that any business with an annual turnover of 20 lakhs [exempting north east states, where this threshold is 10 lakhs] or more is required to register for GST and gives an impression that anyone below the mentioned limit is exempted from registering. But, any venture, if making any inter-state transaction is required to register for GST and file returns, irrespective of his annual turnover being below 20 lakhs. The distance of the inter-state is immaterial and could be as close between Noida and Delhi.

#### Blocked working capital

The new generation taxation mechanism would need to uphold funds in the electronic form with the tax department leading to a blockage of the capital. Additionally, the input tax credit mechanism will also lead to choked capital. All in all, the businesses would have to part from a portion of their funds [without interest] under GST.

#### Compliance parameters

A numerical figure [GST Compliance Rating] will guide your prospective buyer to decide upon your credibility with the government much like the personal credit score these days. Businesses will do everything to get and keep a 'good' score, which is not that easy, seeing the stringent online micro guidelines not only about entering the data but also about payments. The 'good' credit score would come at a cost of specifically deployed bandwidth and funds.

#### Technological restrictions:

GST being a 100% online module will need skills and precision for that critical accuracy which would much be needed for getting a high GST Compliance Rating and will have to depend upon the intermediaries [GSPs and ASPs]. Such recurring services would certainly hit the bottom line profitability of the startups and the SMBs.

#### The ruthless reverse charge mechanism:

If a small businessman, who is exempted from GST supplies to a GST registered entity, the buyer is liable to pay GST on such a purchase by self-invoicing and this invoice is to be uploaded at GSTN while filing returns. Such a cost is basically bad debts for the purchaser.

#### Conclusion

This paper shows that the GST has both the advantages and disadvantages for startups in India. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time also endeavour to generate tax revenues to support government expenditure on public services. Start-ups play a very important role for boosting economic growth and a good GST policy is very helpful for growth of Startups in India. GST has simplified the tax filling procedure for startups. Startups can enjoy tax credit on purchases and reduced tax burden of taxes. GST has some disadvantages for startups too. GST has introduced

recently so there is still confusion related to registration procedure. The new business now need to uphold funds in electronic form with tax department leading to a blockage of capital. GST being a 100% online module which need skills and precision for that critical accuracy which would much be needed for getting a high GST compliance rating and will have to depend upon the intermediaries.

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