

Liquidity respite for exporters; compliance liability to ease for SMEs

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The 22nd Goods and Service Tax (GST) council meeting held on 6th October 2017 was primarily targeted towards providing liquidity respite to exporters as well as lowering of compliance burden for small and medium enterprises (SME). CRISIL Research believes that the government's move to relax IGST for six months and faster processing of refunds for exporters, would address their liquidity issue and improve business efficiencies in the short term. Moreover, reducing compliance burden for SME would widen the tax base under GST. Further, tax rates have been reduced on air conditioned (A/C) restaurants from 18% to 12%.

Lowering compliance cost for SME to widen the tax base

Implementation of GST burdened the SME sector following increase in compliance cost on account of filing 3 monthly returns and 1 annual return (total 37 returns per annum). In the 22nd GST council meeting, the Government eased return filing process from monthly to quarterly for SME's who have annual turnover of less than Rs 150 million. Government also raised the annual turnover limit under composition scheme from Rs 7.5 million to Rs 10 million, enabling players to pay taxes at concessional rate. CRISIL Research believes that quarterly return filings by SME and increasing the turnover limit under composition scheme would widen the tax payer's base.

Moreover, government had earlier mandated reverse charge mechanism under which large entities pay taxes on behalf of their supplies from unregistered SMEs. This was creating an additional tax burden on the large entities. Hence, they were not preferring to route through unregistered SME's. The recent Council meeting removed the reverse charge mechanism up to March 2018, which provides a short term relief to SME.

Working capital crunch eased for exporters due to removal of IGST and faster refunds

Exports of goods or services have been zero rated under GST. However, to claim the input tax credit on inputs used in the manufacture of exported finished goods, exporters either have to pay IGST which can be claimed as refund after the goods have been exported, or export under bond/Letter of Undertaking (LUT) without payment of IGST.

Typically, small sized exporters face challenges in availing of bank guarantees. Hence, they have to pay IGST on exports, and as refunds take time to process, it resulted in stretched working capital. CRISIL Research believes that removal of IGST on exports for six months and faster refunds will ease the working capital requirement and improve business efficiencies in the short term for exporters.

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