

SOPS GALORE

Big relief for MSMEs as GST ambit shrinks

Council raises exemption threshold to ₹40 lakh, launches benign-tax scheme for service providers, widens its scope for others

FE BUREAU
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BRACING ITSELF FOR the general elections, the Narendra Modi government is showering goodies on the micro, small and medium enterprises (MSMEs) and small traders that have suffered under the note ban and a hastily implemented GST. Over 20 lakh GST-registered businesses dealing in goods have now got the option to move out of the tax's ambit as the GST Council on Thursday raised the aggregate turnover threshold for exemption to ₹40 lakh from the present ₹20 lakh.

Also, a few lakh more taxpayers — over and above around 18 lakh at present —

Benefits to taxpayers

Mainly on the compliance front. Taxpayers who will freshly move out of the mandatory tax net/regular taxes are in millions but contribute very little to government's GST revenue



Tax's structural purity compromised further

- States given freedom to keep the exemption threshold between **₹20 lakh & ₹40 lakh**
- While the idea is to converge tax slabs, new rate of **6%** introduced for small service providers
- Reduction of the tax base militates against the concept of comprehensive net, formalisation of the economy
- Calamity cess of **1%** for Kerala could set a bad precedent

will benefit from the benign, easy-compliance composition scheme as the council opened it to those with a turnover of up to ₹1.5 crore (the earlier limit was ₹1 crore), effective April 1.

For the first time, the composition scheme has been made available to service providers and businesses who deal in both goods and services,

subject to an annual turnover limit of ₹50 lakh. While the manufacturers and traders under the composition scheme pay tax at 1% of the turnover sans input tax credit, service providers will have to shell out 6% given the higher value addition in their business.

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THESE APART, THE compliance burden itself has been reduced for composition-scheme taxpayers with the facility for returns to be filed only annually (hitherto quarterly), while taxes need to be paid every quarter.

Pertinently, the raising of the GST turnover threshold comes with a facility for the states to choose a limit between ₹20 lakh and ₹40 lakh, a move tax experts disapproved of, as it could further complicate the tax structure.

As for hilly states, the turnover threshold for GST has been hiked to ₹20 lakh from ₹10 lakh, with the option to align themselves with the scheme for the rest of the country.

Over the last few weeks, the government has taken several steps to support MSMEs. In November 2018, it launched a scheme for MSMEs to avail of loans in 59 minutes. Under this scheme, state-run banks have given in-principle approval to

1.12 lakh loan applications, totalling ₹37,412 crore since then.

Earlier in the year, the government permitted promoters of stressed MSMEs, who are not wilful defaulters to bid for bad assets under the Insolvency and Bankruptcy Code, while those of larger firms are barred from doing so.

The Reserve Bank of India has allowed a one-time restructuring of existing loans of MSMEs (up to ₹25 crore) that are in default but "standard" as on January 1, without any asset classification downgrade.

If all eligible firms avail themselves of the hike in overall and composition-scheme thresholds, then the government's revenue hit could be of the order of ₹5,200 crore, an official source said. However, this is just a theoretical possibility as practically a section of them might not exercise the options as there are advantages of being in the normal GST chain such as ITC (input tax credit) and retention of large customers.

The revenue impact of the composition scheme launched for service providers is not immediately clear.

The higher overall GST threshold might not dramatically reduce the number of GST registrants, 1.2 crore at last count.

While a quarter of the firms registered with the GST Network (GSTN) have turnover between ₹20 lakh and ₹1 crore, their share in the government's GST revenue mop-up is just 5%. Even as the mandatory lower limit for a firm to register for GST is ₹20 lakh, half of the firms registered are those with turnover below that level.

Though these sub-₹20 lakh firms contribute just 1.5% of the GST revenue, they prefer to be in the tax chain for the benefit of input tax credit and to keep large businesses (which are in the GST chain) as their buyers.

The Council also allowed Kerala to levy 1% calamity cess on intra-state sale of goods and services for a period of up to two years to mobilise revenues.

However, the Council couldn't arrive at a consensus on reducing GST to 5% from 12% (while blocking ITC) for under-construction property as some states argued that it could lead to tax evasion and

black-marketing. Sources said Punjab was vociferous in opposing the move. Finance minister Arun Jaitley said the Council would form a seven-member group of ministers to study the proposal and recommend a solution.

Sources also said while the central government was keen on cutting the rates for under-construction property, with their enhanced numbers in the Council — after Congress won Madhya Pradesh, Rajasthan and Chhatisgarh in December last year — opposition-ruled resisted the move. "Any further rate cut will only be after watching the revenue for the next few months," revenue secretary Ajay Bhushan Pandey said.

"It's good that the Council has recommended the matter of real estate to a GoM since introduction of composition levy (as was being discussed in last Council meeting) with restriction of input tax credit may not be a decision in the right direction for real estate sector and hopefully, a lower rate (of around 8%) with input tax credit would finally be allowed," Pratik Jain, partner and leader, indirect tax, PwC India said.

Archit Gupta, founder & CEO, ClearTax, said increasing basic registration threshold will have a positive impact for small businesses since it reduces compliance efforts. "Notably this will reduce overall GST base in the economy and keep people out of the formal system. However, suppliers selling to other businesses, must continue to do full compliance if they want to pass on ITC benefit to their buyers. Service providers will be relieved with composition scheme, even though rate is higher, their compliance will go down significantly," Gupta added.

The government is looking at the yawning gap in GST collection. The revenue for November (collected in December) dropped to ₹94,726 crore from ₹97,637 crore in the previous month. It is clear that the Centre will report a major GST revenue deficit in this fiscal against its target. States, despite the compensation guaranteed for any shortfall in their state GST (SGST) revenue, could also take a hit as lower revenue for the Centre would reduce tax devolution to states. The November revenue is even lower than the average (₹97,039 crore) in the