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A Review on Impact of GST on Information Technology (IT) Sector

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ABSTRACT-

The Goods and Services Tax (GST) was executed in India from April 2016 and, GST has affected almost every major and minor business industry in the country. And as expected it also incorporate India's famous Information Technology (IT) sector which is the source of the various IT revolutions and developments taking place here. However, as suggested, the GST has simplified the tax system in India by replacing the various indirect taxes with a single GST tax system to remove different types of taxes like VAT, Octroi, Service tax etc. In this paper I tried to review the impacts of GST on IT sector. This paper tries to find out the answer of how does GST affect the country's IT sector

Keywords: GST, IT, taxes, VAT, Service Tax

1. INTRODUCTION

Goods and Services Tax is known as Goods and Services Tax. It is an indirect tax that has replaced many indirect taxes in India like excise tax, value-added tax, service tax, etc. The Goods and Services Tax Act was passed in Parliament on March 29, 2017 and entered into force on July 1, 2017.

In other words, Goods and Services Tax (GST) is levied on the supply of goods and services. The Goods and Services Tax Act of India is a comprehensive multi-stage tax that depends on the destination and is levied on each value addition. GST is a single indirect local tax law for the entire country [1].

Before GST there were many indirect taxes It is imposed by both the state and the center. The states collect taxes primarily in the form of a value-added tax (VAT). Each state has a different set of rules and regulations.

The sale of goods between states was taxed by the center. CST (Central State Tax) was applicable in the event of goods being sold interstate. Indirect taxes such as the entertainment tax, the octagonal tax, and local taxes were levied together by the state and the centre. This led to a lot of overlap in taxes imposed by both the state and the center.

For example, when goods were manufactured and sold, the center charged excise tax. On top of the production tax, value-added tax was also imposed by the state. It has resulted in a tax effect tax, also known as cascading tax effect.

Below is a list of indirect taxes in the pre-GST system:

- Central excise tax
- Excise duties
- Additional Fee for Tax
- Additional customs fees
- Special additional customs fees
- Tax
- State value-added tax
- Central sales tax
- Purchase tax
- Luxury tax
- Entertainment tax
- Entry tax
- Taxes on ads

- Taxes on lotteries, betting and gambling

The CGST, SGST and IGST have superseded all of the above taxes.

Here are three taxes applicable under this system: CGST, SGST, and IGST.

CGST: Tax collected by the central government on an in-state sale (for example, a transaction made within Maharashtra)

SGST: Tax collected by the state government on an in-state sale (for example, a transaction made within Maharashtra)

IGST: It is a tax collected by the central government for interstate sale (eg Maharashtra to Tamil Nadu)

However, some taxes such as Goods and Services Tax levied on interstate purchase at a concessional rate of 2% through the issuance and use of 'Form C' still prevail.

The GST replaced many indirect taxes, which existed under the previous tax system. The advantage of having one tax means that each state follows the same rate for a particular product or service. Tax administration is easier with the central government setting rates and policies. Common laws can be entered, such as electronic way bills for the carriage of goods and electronic bills for reporting transactions. Tax compliance is also better because taxpayers don't get caught up in many return forms and deadlines. In general, it is a standardized system of indirect tax compliance.

The association of the Indian economy with information technology (IT) is well aware of all the changes coming along with GST and has also issued a warning not to use IT in an easy way as it contributes to the economy in a very heavy percentage. While the President of the National Association of Software and Services Companies (NASCOM) R. stated that the IT industry is experiencing difficult growth.

2. LITERATURE REVIEW

GST on import of software

As imported software falls under the category HSN Code 997331, it becomes an import of Service. However, for services, companies or individuals need not file a Bill of Entry. But concerned individuals must pay the required IGST as per the RCM basis, as stated in Notification 10/2017-IT, which came out in June 2017. After payment, it comes under the RCM status in the GSTR-1. As this makes the importer eligible for Input Tax Credit, the same becomes a part of the GSTR-3B[1].

GST for software services

Under GST, the design, development, customisation, enhancement, implementation, or up-gradation of IT software becomes a supply of service. As per new rules, such service attracts a software GST rate of 18%. Any software in its physical form becomes goods as per the Customs Tariff Act. They have the HSN Code 8523-80-20, and the rate for such software is 18%. Furthermore, the transfer of software IPR is also a service, attracting an 18% GST rate [1].

GST on export of software services

Exports to SEZ units and developers have a zero rating under the GST regime. This means such exports do not require any tax payment. However, the exporter can avail input tax credit on all inputs used to create the exports. The two options for zero ratings of GST for IT services and exports are as follows[1]:

- Pay integrated tax for supplies, and receive a refund for the same after exporting.
- Export supplies as per a bond, and claim refund on inputs and services related to that export.

3. IMPACT OF GST ON IT

Business

All businesses, big or small, are rushing to bring their accounting and ERP systems into sync with GST. This means an increase in infrastructure costs and changes in business systems. Most large companies have established teams consisting of their own technical experts, financial experts, and an expert from the GST software vendor[2].

Take advantage of the ITC

While there is a significant increase in infrastructure costs and corporate overhead costs, there is also good news in the form of ITC. Merchants who sold merchandise (paying VAT) earlier could not claim service tax paid on AMC for their computers and software. Under GST, this ITC is available. For example, Ajay sells fruit based drinks worth Rs. 1,00,000. He also has to pay AMC of Rs. 10,000 per month on computers used in his offices[2].

Redesign IT service providers for business software All of their input taxes can also be adjusted against the service provided. For example, they can now adjust the value-added tax paid on office supplies for the service they provide. Also, IT companies that maintain servers incur huge capital expenditures on hardware purchases and also revenue expenditures on repairs and maintenance. Now the tax paid on appliances can be adjusted against the tax paid on services and small parts of repairs.

Business software redesign

The biggest hurdle is changing IT systems that require coordination between tax experts and technology teams. In many cases, some ERP software provided by IT majors will have to be redesigned and updated with new GST rules. Companies are essentially upgrading their enterprise resource planning (ERP) and accounting software to accommodate the complexities of calculating GST[2].

Being taxed for a new ERP installation

Companies install their own accounting and ERP systems in batches. For example, ERP is performed in batches. It is a long-term contract that extends over a period of years. ERP professionals understand business requirements, design software accordingly, train company employees and maintain and update the software regularly. Payments for this contract will be spread over the years and service tax collected accordingly. Under GST, this will be a continuous/cyclical supply and will be taxed accordingly.

Export of Services

IT export is an important source of foreign exchange, with India being the largest source of IT services. Exports are subject to zero rate and input taxes paid will be allowed as a refund. The default rule for place of supply (service export) is the location of the service recipient if the recipient's address is available [3].

Therefore, exporters must ensure that the address of the recipient of the service can be presented before the authorities upon request. Typical IT/ITES services that fall under the default base will be software development, BPO operations, software consulting, etc. Apart from these, this rule will also apply to other services like software support/maintenance and intermediate services as there are no exceptions under GST.

Freelancers

Freelancers who provide software services like design, app development, website design, etc., earlier paid a 15% service tax. This has now increased to 18% under Goods and Services Tax. However, there is some confusion about bloggers being taxable under the GST and requiring registration. Earlier they were not taxable under service tax. We hope the GST Board will clarify this situation in due course. For a full analysis of the applicability of GST to bloggers, please refer to our article [4].

4. CONCLUSION

Since GST in the IT sector has an 28% rate, the cost of software services will increase. It will also result in higher infrastructure and administrative costs for businesses of all sizes. However, such companies also get to avail ITC benefits, which will help them. All in all, the IT industry will benefit through such GST laws, due to a boost in sales for the industry in the form of software sales. The availability of ITC will also help businesses lower their operational costs, improving profitability.

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