The Cost of implementing GST

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It is often said that there are no freebies in this world. Implementation of GST is no exception. Surprising though it may seem, but implementation of GST entails a cost both for the Government as well as for the corporates. This article purports to identify the same so as to act as an enabler for forecasting adequate budgetary allocation by each of these stakeholders.

Since the Government is responsible for administration and implementation of GST, there is no doubt that it is a bigger stakeholder and therefore the issues requiring its attention are being first discussed.

Tax commentator Binh Tran-Nam has referred to the cost incurred by the Government conceptually as the Social Cost of implementation of GST. The Social Costs of the GST refer to the costs incurred by the entire economy in complying with the GST legislation. The three areas where this expenditure is normally incurred are design, drafting and enactment, administration, and compliance. The Australian Taxation Journal has estimated that the recurrent social cost of introducing GST in Australia ranged near about $1.9 billion to $ 2.2 billion (year 2001-02). Binh Tran-Nam concluded that Australia finally incurred a Social Cost of $4.5 billion. The point therefore is that the Government cannot merely pat itself on its back for the initiative taken for introduction of GST, it needs to do much more. It is clear from the estimates that the Government will have to engage in some estimation of the finances required for the social cost and appropriate budgetary allocation will need to be made for the same. As pointed out by Dr. Nthati Rametse, School of Management, RMIT University, Melbourne, Australia, every country will have to undertake this estimation due to differences such as taxation cultures, systems and processes of different countries, for example, taxation structure and tax population, GST rate(s), quality of data arising from different research methodologies, newness of the GST (inclusion of temporary or learning costs); degree of computer usage and quality of the tax administration, e.g. GST return form design. Any leap into the dark without adequate preparation can not only adversely affect our economy but also can lead to avoidable inflationary trends.

As opposed to the Social Costs is the tax payer compliance cost. These would majorly include, the start-up compliance costs of the GST Include registering the business for GST, learning about GST and new procedures, getting advice about GST from professional tax advisers, discarding of out-of-date stationery or receipts and purchasing new equipment or updated equipment.

There are reports which suggest that traditionally small businesses have suffered a higher financial impact as compared to medium and large businesses at the time of implementation of GST. Sandford and Hasseldine (1992) who also investigated compliance costs of New Zealand's GST, estimated the total compliance cost of New Zealand's GST at NZ$453 million, or 7.3 per cent of the GST net revenue. Furthermore, the study found that nearly 60 per cent of the compliance costs of the GST fell on businesses with under $250 000 turnovers. The regressitivity of GST compliance costs was confirmed as falling with exceptional severity on small firms. The reason for this inference was that the benefit by these businesses is felt only over a long period of time.

There are some important lessons to be learnt from these precedents. The Government would be under an obligation to provide adequate support to the small businesses to transition to GST. Their revenue contribution may be less, but there numbers would be large enough to make or mar the success of implementation of GST.

GST as a tax regime conceptually differs from its predecessors such as sales tax, service tax, excise duty etc. Government will have to act as knowledge partner as all the businesses cannot afford high end consultant fees. This Knowledge updating has to be undertaken well before the onset of GST to enable the businesses to evaluate their systems to synchronize them to the requirements of GST. Let there be no doubt that the role required to be played by the Government would be substantially different than that at the time of introduction of VAT due to the differences in the basic nature of the regimes.

The proposed Credit Mechanism would require large investments in IT infrastructure. The Government itself is in discussions with vendors to procure software which would provide the platform for this credit mechanism. Also given the fact that the proposed GST in India is a dual regime, the businesses will have to do much more to adjust to the dual credit mechanism. The IT infrastructure will have to be compatible with the software and computer systems proposed to be used by the Government for disbursing credits. The Government should seriously look at providing subsidized loans for small businesses to help them tide over the capital expenditure requirements for computer systems and software in the initial stages of implementation of GST.

Another cost centre could be replacement of stationary, letter heads, bill book/ invoices etc. by the businesses. New stationary will have be got printed to conform to the requirements of the GST legislation.

Businesses are well advised to undertake a GST impact analysis not only from a taxation perspective, but also to determine the cost of transition. Most businesses forecast budgets for the following year an year in advance. Announcement of a firm date of transition by the Government would only help the process of forecasting and budgeting.