



8 Million Indian SMEs to process 4 billion GST receipts every month: The opportunity for ANZ fintech

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INDIAN GST - WHAT, WHEN, WHY

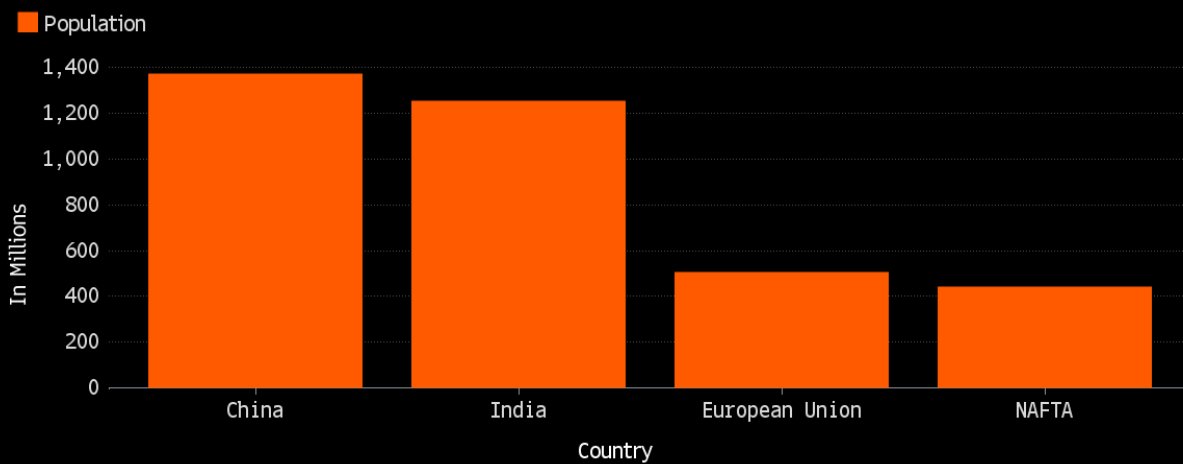
More than 10 years after it was initially proposed, India will rollout a Goods and Services Tax on July 1 2017 making it the single biggest tax reform since Indian independence in 1947. The GST will simplify a highly complex and layered tax system comprising of upto 17 indirect taxes levied by the centre (federal), state and local governments including excise, service tax, entertainment, entry, luxury and value-added taxes. While India is the world's fastest growing major economy, it sits at 130th in the World Bank's Ease of Doing Business ranks. The unifying sales tax is anticipated to increase the ease of doing business by creating a single market and considerably widen the tax base in a country where only 3% of the population pay income tax.

While India boasts a consumer population almost as large as China, and larger than the EU and North America combined, the cascade of taxes applied across 29 states have created a highly fragmented market with huge interstate trade inefficiencies.



India's Big Single Market

A billion consumers and counting



World Bank

Bloomberg

Below is a photo taken in New Delhi of 20,000 trucks queuing for hours at border checkpoints, prior to entering the state with cargo. This happens right across the country on a daily basis. A study done by IIM Kolkata suggests the loss due to delays like this at US\$6.6 billion annually.



Like much of the modern Modi-led government's transformative initiatives, the GST rollout will have a high reliance on technology. [More on the technology and the framework below] If implemented well, the rollout of GST will benefit the economy, corporate, the consumer and the Indian equity market through creating a single market economy, an order of magnitude larger than EU.

The National Council of Applied Economic Research ([NCEAR](#)) suggests the GST could boost India's \$2 trillion GDP by 0.9-1.7%. A white paper by the [US Federal Reserve](#) modelling a baseline GST of 16% could boost growth by upto 4.2%. The study suggests increased global competitiveness of Indian firms will lead to a 32% increase in external trade and 14% surge in manufacturing.

In May 2017, just a few weeks ago, Finance Minister Arun Jaitley announced the GST rates for 1200 goods and services categorising them into 5 tiers ranging from 0 to 28%. Household staples like rice and lentils, which form close to 50% of the average consumer basket, will be taxed at 0%.

Multi-tiered system

Tax rate	Indicative items
0%	50% of the consumer price basket, including foodgrains 
5%	Mass consumption items like spices and mustard oil 
12%	Processed foods 
18%	Soaps, oil, toothpaste, refrigerator, smartphones 
28%	White goods, cars 
28% plus cess	Luxury cars, pan masala, tobacco, aerated drinks 

Source: GST council

HOW?

According to Bloomberg, India has set aside AU\$574 million over the past 2 years, learning and building a framework in collaboration with countries that have successfully implemented GST or VAT in the past. I recall a delegation of Indian finance ministers to Sydney and Canberra in 2015 to learn from Australia's implementation back in 2000. The result is an infrastructure for monitoring and real time matching of each supplier and purchaser in every transaction. Each purchaser in the supply chain will be incentivised to collect the input tax credit from their supplier, and encourage them to use suppliers who have paid GST and accounted for it correctly. In theory, this will result in a significantly higher tax base and better GST compliance across the country. Because the GST is a consumer based (rather than a producer-driven and destination based) it means the consumer will pay a single, product-category based tax rate instead of facing a series of cascading tax rates.

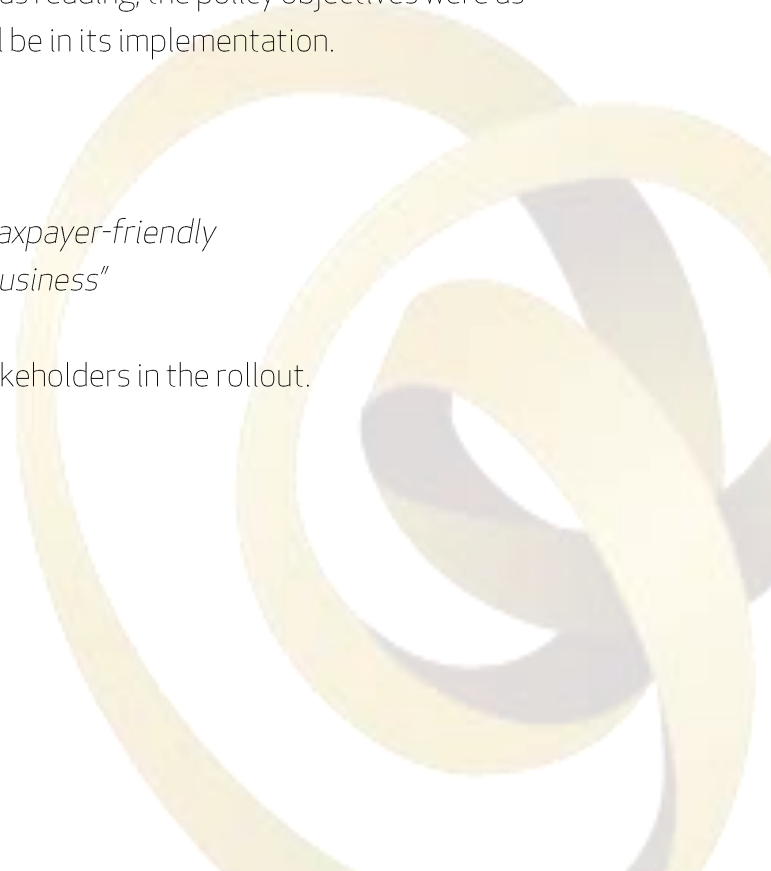
IMPLEMENTATION

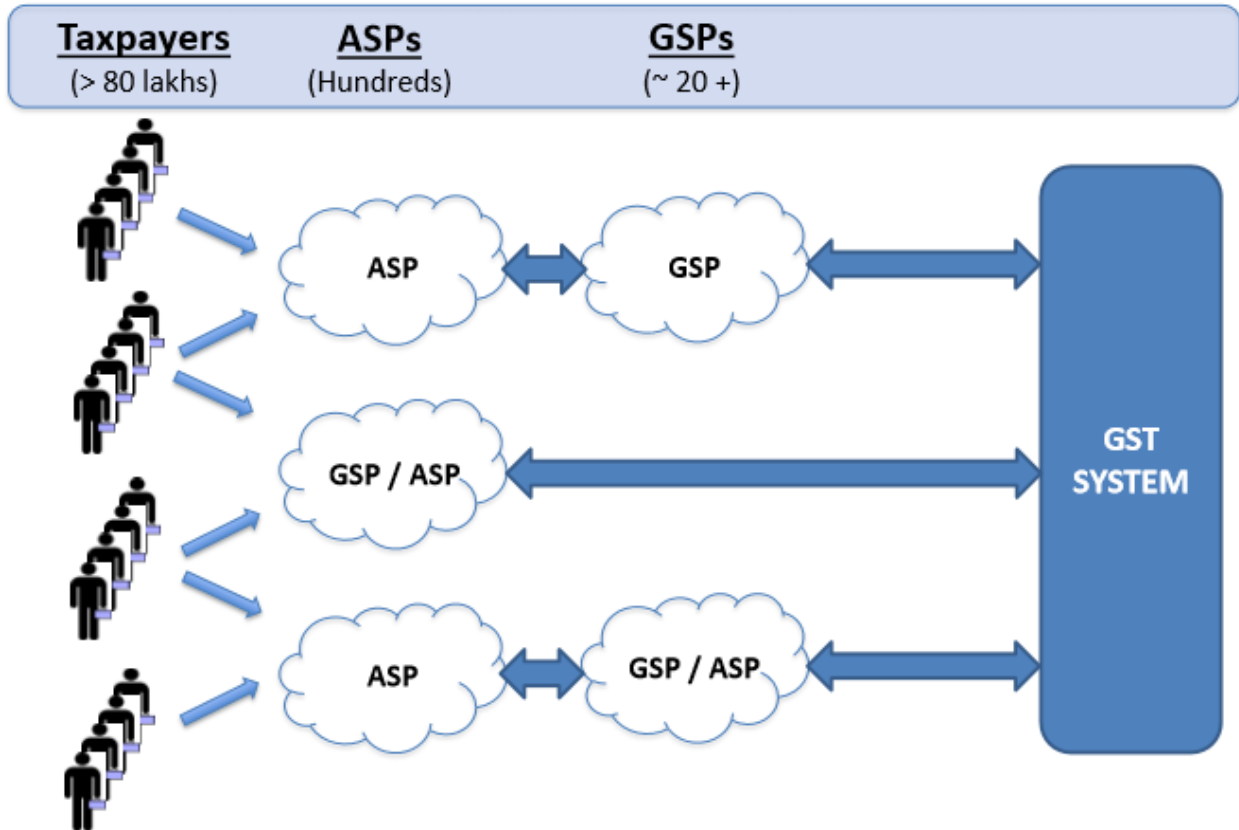
The implementation of GST to 1.3 billion customers, across 29 states in 22 official languages, in a highly unorganised, cash based economy, where IT infrastructure might be lacking will be no easy task. The GST infrastructure will have to cater to 8 million businesses processing 3-4 billion transactions per month, with the GST intake split between Central GST (CGST), State GST (SGST) and Integrated GST (IGST) creating further difficulty.

According to some government documents that I was reading, the policy objectives were as below. While the intention is great, the true test will be in its implementation.

- *Clarity in laws*
- *Law should be easy to administer*
- *Law should be non-adversarial and taxpayer-friendly*
- *Law should improve "ease of doing business"*

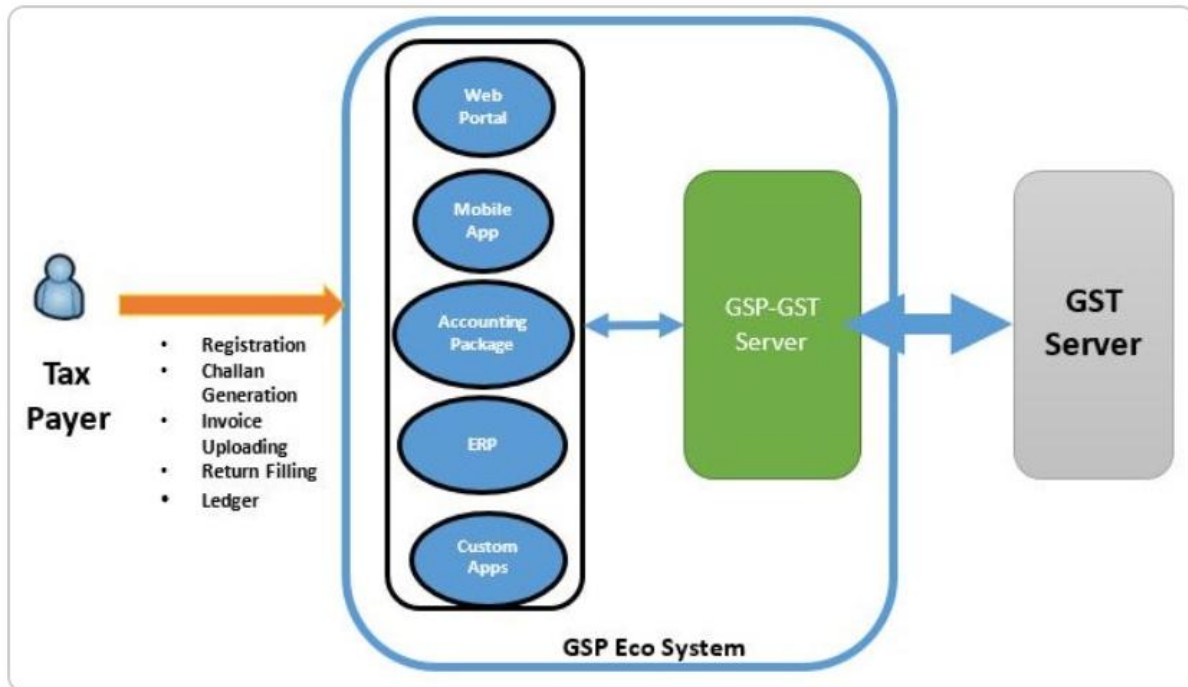
With this in mind, let's have a look at the various stakeholders in the rollout.





The GST Network (GSTN) (blue box, right) is a government portal built to be the backbone of Indian GST. Infosys was awarded an almost AU\$300 million contract to build this over the last couple of years, wherein the system is built to handle 55,000 users concurrently. GSTN is the core infrastructure, which service providers like GSPs, ASPs and ultimately the taxpayers will connect to. Jointly GSPs and ASPs will support taxpayers comply with the GST. There are 3 key interactions in the filling of a tax return denoted by the 3 arrows from left to right.

1. Taxpayer to ASP
2. ASP to GSP
3. GSP to GSTN



34 GSPs have been appointed by the GSTN at the time of writing to provide enriched API access to the G2B portal. They include major technology firms and large global accounting firms.

GSPs will be able to deliver the following services using different modules in the GSTN:

- Register taxpayers and consultant
- Lodge returns (GSTR1 upto GSTR12)
- Payments
- Maintain ledgers
- Get a consolidated view of all clients
- Generate reporting and updates on clients

Many ASPs interact with each GSP, wherein the former acts as the bridge between the GSP and the end user. The ASPs are infact programmed to automatically prepare GST returns (GSTR) though taxpayers' raw data of sales & purchases, which are then filed with GSTN via the GSP.

However, the new set of rules and revisions to the GST also seems to be hindering the software testing and security compliance for parts of the rollout. Few GSPs have urged the GSTN to

move the August filing timeline to September, so as to carry on testing. The issue is primarily with GSTR 3, wherein its August 15 release gives only a 4-day testing period.

GSTN CEO Prakash Kumar has advised the use of GSTN's offline tool as an alternative, if in case few of the GSPs are not ready for implementation. He further added, "Taxpayers having small number of business to business invoices, like retailers and small traders, can do the data entry on (GSTN) portal itself and they will also not require the services of GSPs."

Interestingly, the apex body GST Council has relaxed the first two months of August and September, which will now ease the SMEs into efficient transition.

An ISO security audit has been proposed for both the infrastructure and application, which can take place only three months after GSTN comes to effect, till then GSPs will run based on self-certification. The set up of an anti-profiteering authority for two years will further aid the GST framework, as it oversees the execution, vets applications/penalties, and prevents profiteering to protect the end consumer.

OPPORTUNITIES

Archit Gupta, Founder/CEO of ClearTax, an Indian ITR e-filing website, said this was a ~AU\$200 million+ opportunity for integrators or service providers and a ~AU\$600 million+ opportunity for software-led services.

To make this an effective rollout, there is an immense and imminent opportunity for ANZ fintechs, and global companies that can provide mobile apps and custom software to help specific needs of taxpayers. They include:

- reconciliation of invoices uploaded by seller
- alerts and dashboard for taxpayers,
- support for various type of file upload (pdf, excel, csv),
- dashboard for tax consultants
- platforms for buyers and seller to upload purchase orders, invoices and receipts that generate automatic GSTR1/GSTR2
- Mobile POS
- invoice generation



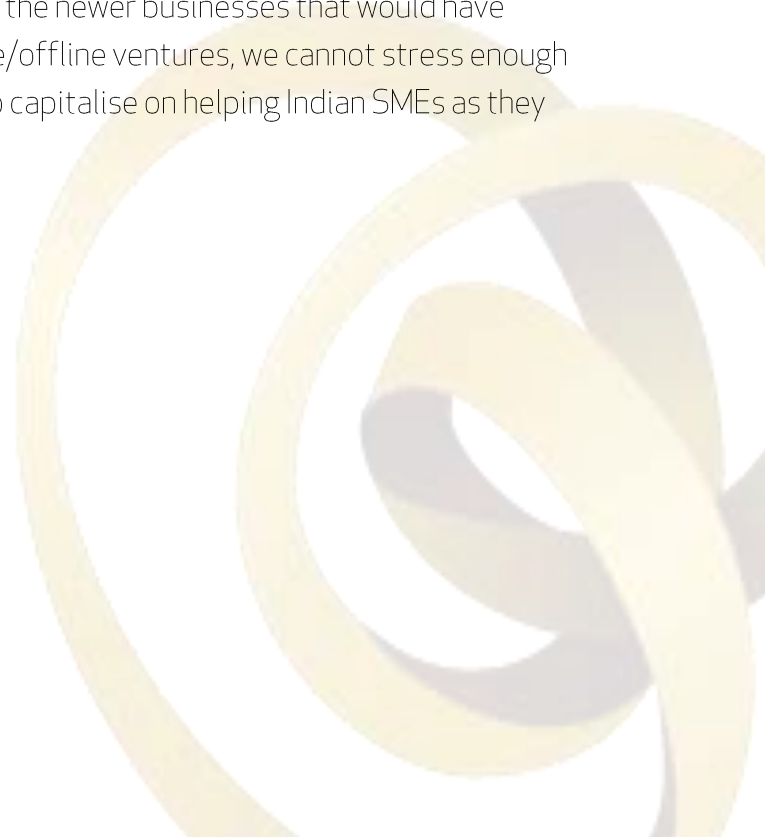
- inventory management

CONCLUSION

Both Australia and New Zealand have already brought GST in their tax systems due to its innumerable benefits. When Australia rolled out its GST in 2000, it was considered as the greatest tax reform that the economy experienced. While Australia still suffers on some levels, NZ's tax reform is infact considered as the gold standard by many economists for its simplicity. Prime Minister John Key had infact raised GST to 15% in 2010 without much political debate, and the country even boasts of not having high compliance costs.

With GST almost underway for India, it is all set to be one of the biggest common markets in the world. Albeit the implementation will account for initial struggles in the switch and resultant inflation increase, the long-term benefits of this inclusive policy is diverse. The bolstered revenue system for the govt., business friendly ambiance, increased investment inflow, reduced costs for both internal & external trade, etc., will outweigh the temporary hurdles. Both the economy and the world at large will stand to gain plenty through this much-awaited GST reform, and the time is ripe now to cash in on such a mammoth level implementation.

With 37 returns to be filed in a year, and almost an envisaged spending of AU\$7 billion in the next two years, a new sector called 'GST enablers' is already making inroads. As per the National Sample Survey Office (NSSO) data of 2013, there were 57.7 million registered SMEs in India. Given the entrepreneurial tide in the sub-continent, the newer businesses that would have come since then, apart from the unregistered online/offline ventures, we cannot stress enough how big an opportunity this is for ANZ companies to capitalise on helping Indian SMEs as they scramble to become compliant virtually overnight.





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