NEWSLETTER

GOVERNMENT SHOULD PROVIDE MORE TAX RELIEF TO MSMES, SAYS MR. KHONA

Government of India relaxed GST compliance norms for micro, small and medium enterprises (MSMEs) to cushion the impact of COVID-19 induced lockdown on their finances. However, experts feel that the central government could provide more relaxation in tax procedures to enable these enterprises navigate through this crisis.

In an interview to MVIRDC World Trade Center Mumbai, Mr. Raj Mukesh Khona, Associate Director, Khimji Kunverji & Co. LLP ("KKC") provides a slew of suggestions to Government of India for providing tax relief to MSMEs. Mr. Khona heads Indirect tax (GST) practice at KKC, which is a leading audit firm in India and which is a part of HLB International, one of the top 10 accounting networks globally.

Excerpts of the interview:

1. What are the challenges faced by MSMEs in navigating through the COVID-19 crisis?

MSMEs are backbone of Indian economy and have played a great role in India's growth story. An effective cash flow management is likely to be critical during this period as revenues fall and potentially, debtors delay payments or become insolvent. The regulators have announced a slew of measures like interest moratorium, EMI and tax deferments among others to support the liquidity issues. However, there are apprehensions as upto what extent such measures would be help the MSME in managing the liquidity crisis especially with regard to honouring the fixed payments like rents, employee salary and government taxes. MSME sector in India is largely informal wherein use of technology, digital payment and e-invoicing is at a nascent stage. Even the workforce is not equipped to operate digitally. Going ahead, MSMEs would have to invest in technology, provide training to their workforce and start thinking about innovative business models to rationalise tax impact and remove the supply chain efficiencies. Companies may need to switch suppliers or selling channels; change workplace locations; they may need to change the quantity or type of products and service which are bought or sold or modify transport routes.

Businesses which are operational in this phase are facing challenges in availing input tax credit (ITC) of GST paid on food and travel expenses incurred for employees. Also, a major impact on business would be loss of ITC on goods destroyed/scrapped due to low shelf life/perishable nature. Another challenge that businesses would be facing is on accounting for GST in relation to the cancellation of supplies, liquidated damages and bad debts. Liquidated damages are payments made for breach of contract. For example, A enters into contract with B that A would buy 100 tons of Product P from B. A does not buy 100 tons or only buys 50 tons. So, for the dishonouring the terms of contract, B is entitled to damages.

2. The government has given relaxation of GST compliance norms for industry on March 26, 2020. Do you feel this is will provide enough relief for MSMEs? What other steps do you expect government to take to support the industry?

As the saying goes a friend in need is a friend indeed. The relaxations announced by Government especially with regard to GST compliances are taxpayer friendly and have proven to be a major relief to the MSME sector in these difficult times. Relief measures like granting extension in GST payment with complete interest waiver for small taxpayers with turnover less than 5 crores till June end and relaxing the restrictions on availment of ITC related to unmatched invoices till

September 2020 are very welcome steps taken by the Government which would help the MSMEs in managing the liquidity to a great extent. However, much more needs to be done on this front. The Government should come out with innovative relief measures to support the MSMEs in these challenging times. A comprehensive GST relief package needs to be announced at the earliest. Some suggestive measures are listed below –

- The relaxations given by the Government on 24th March 2020 were on the assumption that lockdown will end on 14th April 2020. Now that lockdown is extended till 3rd May 2020 with high chances of further extension, there is need to revisit the relaxations given and stagger it over a period of time so that taxpayers are not burdened.

- Shifting the liability to deposit GST from invoice basis to receipt basis - Currently, GST liability is triggered on raising of invoices. Supplier needs to deposit tax with the Government on raising of invoice even if the customers do not make the payment of consideration. In this crisis period, where both supplier and recipient would be facing a financial crunch, shifting the liability to deposit GST on receipt of payments would prove to be a game changer in managing the taxation.

- **Measures for exporters -** COVID-19 has impacted the global economy at large. Currently, service exporters enjoy a zero-tax incidence through a refund mechanism provided they receive consideration in convertible foreign exchange within a period of 1 year from effecting export transaction. The time limit of receiving the consideration within 1 year should be further extended by 1 more year. Also, GST refunds should be processed on immediate basis subject to fulfilment of this condition at a later stage.

- Currently, availment of ITC is subject to payment of consideration by buyers for goods/services procured within 180 days from the date of invoice. This period should be extended to 1 year.

- Supply of medical testing kits (currently taxed at 5%), masks (5%), life-saving drugs (5%), sanitizers (18%) and liquid hand wash (18%) should be zero-rated. The GST paid on input materials and services should be allowed as a refund to such suppliers.

- To give a boost to Make-in-India initiative and boost domestic manufacturing, GST paid on goods and services used for construction of factory building should be available as ITC.

- GST paid on food and travel expenses incurred for employees working during the lockdown period should be allowed as ITC.

- The GST authorities should refrain from conducting any regular assessment and audit for the next 6 months.

3. Some experts call for further reforms in GST, such as rationalisation of rates, bringing fuel, power, real estate under GST etc. According to you what are the unfinished agenda in reforms to GST?

GST was introduced in India from July 2017 with a unique multi-rate structure and hastily implemented IT structure leading to disruptions and revenue leakages. However, if appropriate decisions are taken in a time bound manner it is only a matter of time before the disruptions and loss of revenue from the implementation of GST give way to efficiency and compliance gains. Rates rationalization would be a good step in moving towards a simple tax regime and fine tuning of the complex structure. However, rate rationalization proposal which leads to increase in tax rates of essential items and industrial inputs would adversely affect consumer demand in the current times. So, a comprehensive and balanced approach is required in restructuring the GST rates.

Keeping the petroleum products and power out of the GST net is resulting in cascading effect of taxes and it is defeating the basic philosophy of GST. So, the sooner they are brought in under the

GST net the better it would be. Further, bringing real estate transactions under purview of GST would be welcome step but given the federal structure of India it would highly depend on willingness of the states to give up their legislative powers to tax real estate transactions. In addition to the above unfinished agenda, implementation of the invoice matching system and smooth functioning of the GST portal are much desirable.

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