



## GST: DO SMALL RETAILERS REALLY NEED TO WORRY?

*The recently introduced Goods & Services Tax does take into consideration the limitations of small retailers and is not as bad for them as they perceive it to be*

■ *By Gautam Jain*

**T**he Goods & Services Tax (GST) is one of the biggest tax reforms of independent India. It subsumes almost all the indirect taxes and makes a significant impact across businesses and industries.

In the short-term, however, it might have a negative impact on some sectors due to increase in the tax rate post-GST as compared to existing rates. For retail sector as a whole, it will be positive as it will bring down overall indirect taxes, increase supply chain efficiency and facilitate seamless input tax credit. In the

GST regime, state boundaries will be irrelevant from the taxation and documentation point of view. Vanishing state boundaries will reduce the complexity for retailers and increase the reach as well as efficiency of distribution.

However, small and medium retailers may not be fully aware of the benefits of GST as there is still some confusion and clarity about the new system. Since SME retailers still account for about 90% of retail sector in India, it is important for them to understand how GST impacts them.

## NATURE OF GST

The threshold limit for registration under GST for traders is Rs 20 lakh. This is higher than the VAT limit in all the states in the country which ranges from Rs 5 lakh to Rs 15 lakh. Under the GST regime, every retailer needs to have a proper records maintenance and accounting system in place, which may increase a retailer's monthly business costs by Rs 7,500 to Rs 10,000. Although it increases monthly outgo, it's important to understand that GST on any transaction cannot be avoided unless the entire transaction is out of the GST system, right from manufacturer to retailer. Even though maximum transactions are in cash, it will be difficult to avoid paying taxes on them.

The government has introduced reverse charge mechanism wherein, GST on a transaction from unregistered dealers will have to be paid by registered dealers.

In the old tax regime, most retail products were subject to an average of 15 to 30% indirect taxes, including excise, VAT, CST, service tax on rent, consulting and other services, Octroi and entry tax. The main impact of GST will be a significant reduction in a retailer's tax burden.

In the old tax structure, input tax credit was not allowed to be utilised against payment of service tax and import duty. The service tax on rental which

amounted to almost 7 – 8% of total cost, was not allowed to be set off against VAT liabilities. The GST system provides for setting off taxes starting from producer's point to the consumer point. There will also be savings in form of input tax credit on taxes paid for various services like telephone expenses, professional expenses and taxes paid for the purchase of goods from other states.

## COMPOSITION SCHEME FOR SMALL RETAILERS

To lower the burden of compliance for small businesses, a composition scheme has been introduced under GST law where they can pay tax at a minimum rate based on their turnover. The scheme has been designed taking into account the fact that for small retailers, it is quite difficult to maintain detailed books of accounts on a daily basis and record every transaction with supporting documents.

Salient features of GST Composition Scheme are:

1. Small and medium retailers whose aggregate turnover in the preceding financial year does not exceed Rs 75 lakh, can opt for it. In the case of retailers operating in some states, the limit of turnover is Rs. 50 lakh. These include: Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Himachal Pradesh.



► L-R: For small retailers with an aggregate turnover of less than Rs 75 lakh (Rs 50 lakh in some states), the government offers GST Composition Scheme

2. It provides for paying taxes at 1% of the registered retailer's turnover.
3. The Scheme is optional and voluntary. Retailers need to inform the tax authorities of their intention to be registered under the scheme.
4. Retailers who sell interstate or on e-commerce platforms or who are engaged in import/export cannot opt for the scheme.
5. Retailers under Composition Scheme are not allowed to take any input tax credit.
6. They are also not allowed to recover the tax from their buyers as they cannot raise a tax invoice. This means the tax must be paid out of their own pocket.
7. The signup process for the composition scheme is based on Permanent Account Number (PAN). In case a person has multiple businesses, the aggregate turnover is to be computed across all business verticals across the country for each PAN number. For instance, if a person owns three businesses and has registered all of them under a



8. Under the scheme, a tax payer is required to file only one return in a quarter under GSTR-4. It should contain details of the turnover in the State or Union territory, inward supplies of goods or services or both and tax payable. The due dates for filing the same are:
  - 18<sup>th</sup> July – 1<sup>st</sup> quarter
  - 18<sup>th</sup> October – 2<sup>nd</sup> quarter
  - 18<sup>th</sup> January – 3<sup>rd</sup> quarter
  - 18<sup>th</sup> April – 4<sup>th</sup> quarter
9. Although retailers having opted for the scheme are not required to issue a tax invoice for sale, they can issue a Bill of Supply, which is a more convenient option as lesser details are required.
10. If a retailer, who is not eligible for the composition scheme, chooses to opt for the same, he will be liable to pay tax due plus interest and penalty equal to the amount of tax.
11. Under the composition scheme, if a retailer receives inputs/input services from an unregistered person, tax will have to be paid on such supplies by the composition taxpayer under reverse charge mechanism. 🛒



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