

# IT Industry Faces Tough GST Challenge

Compliance should not raise costs for the sector

It is welcome that the GST Council is moving ahead with speed on finalising the rate structure. But rates are just one part of the story. The main struggle would be to make compliance simple. The information technology (IT) sector has a number of issues that need to be addressed. While it would be welcome if GST ends the confusion on whether software is a good or a service, two rates of tax on the same software when shrink-wrapped and when delivered over the internet would be a shame. At a time when the global IT services demand is flaky, the GST Network's plan to link refund of taxes paid by units in special economic zones to certificates of software export and forex receipt by the RBI could result in capital being blocked for long periods, adding to the cost of Indian IT services.

Locked-up working capital is the problem faced by e-commerce firms as well. They are expected to collect tax at source, while offline retail gets up to six weeks to remit the tax they collect. There is merit to the industry's claim



that its ability to give the tax authorities the most detailed and transparent information on who has sold what and collected what tax would enable the government to both collect tax and avoid discriminating against sellers on e-commerce platforms. IT companies are worried about how to assign multi-

location service delivery to particular states, as they are about composite contracts for supply of infrastructure and maintenance not amenable to itemised billing for hardware and service supplies over the period of the contract. Tax on intra-firm supplies across state borders is a horror IT services share with financial services. Integrated GST would appear to be the solution for IT services as well. The states must agree to this.

IT manufacturers are worried that the arbitrage between the high level of countervailing duty on imports and the actual excise paid on domestic produce would disappear and make local manufacture unviable. Make in India needs firmer foundations than tax arbitrage, however. Streamlining logistics and creating a ready vendor base are tough but essential.