The e-way bill conundrum

With the introduction of the e-way bill scheduled for 1 February 2018, a contentious debate has begun on how this measure can be a serious impediment for goods movement, supply-chain efficiencies, harassment and rent seeking.

While this concern is genuine, what has led to this decision has been slowing goods and services tax (GST) collections in the last few months, contributed to by a host of factors—namely reduction in rates, flow through of integrated GST (IGST) and other eligible credits and evasion in several pockets.

While the effects of lower rates and credit utilization were expected, the evasion factor is what is of serious concern to revenue authorities. With the deferral of invoice level matching due to system stability issues, the checks and balances, which were inbuilt in this process, expose the value chain to potential evasion and loss of revenues.

I understand that states where there were significant imports from other states in the legacy regime are seeing a huge drop in those numbers in GST, which they find difficult to digest, and believe goods are coming in without any documentary trails, leading to wide-scale evasion.

With IGST applicable on all these interstate movements, the issue gets further complicated with potential arbitrage opportunities.

So there is a case for introduction of e-way bills to act as a deterrent and create a trail of movement, but the fallout of its implementation can be equally worrisome. Industry is concerned whether this would again lead to stoppage of trucks, impeding movements and delaying delivery timelines, which had started to improve with no check posts in GST. Also the concern is how smoothly this will be implemented and its efficacy on the ground, considering the fact that logistics, specially truckers, is not an organized sector. With industry already grappling to come to terms with GST compliance, this e-way bill process they believe will be another arduous process to contend with in the initial months.

The concern is that organized sectors will ensure compliance but that evaders will still find ways to skirt this process, which will lead to situations of collusion. Even in the legacy regime, e-way bills and other transportation documentations were in use for trail of goods movements but evasion still happened along with rent-seeking opportunities—that spectre may return to haunt the industry.

It’s important we soon get back to invoice matching for credits albeit in a simplified form, which I am sure is being considered and will be implemented in the comings months. That to me is a more efficient mechanism to track the value chain for evasion and expansion of the tax base. The GST Council meeting slated for 18 January 2018, hopefully should look at all these aspects. But for the interim, industry will have to contend with the e-way bill process and bear this burden.

Another area which I believe the council may look at is reverse charge mechanism, which was deferred till March 2018. With evasion a concern, there may be a temptation to bring this provision back to plug loopholes, though such GST paid through reverse charge (a mechanism wherein the buyer pays the tax on supplies purchased from an unregistered dealer) will be available in the credit chain. What this will provide, however, is potential expansion of database.

Both GST and demonetization were to formalize the economy and expand the tax base, but considering the fact that India has a large expanse of micro, small and medium enterprises that generate a significant portion of employment, these moves have affected these clusters’ existence, leading to job losses. In some of these clusters, tax arbitrage was the reason for their competitiveness and existence, and with GST attempting to formalize these sectors through processes like invoice matching, e-way bill and reverse charge, there will be some collateral damages in the interim. But that’s a pill we will have to swallow to expand our tax base.

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