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REVIEW ARTICLE

GOODS AND SERVICES TAX IN INDIA: AN OPPORTUNITIES AND CHALLENGES

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ABSTRACT

The word tax is derived from the Latin word 'taxare' meaning to estimate. Tax policies play an important role on the economy through their impact on both efficiency and equity. The replacement of the state sales taxes by the Value Added Tax in 2005 marked a significant step forward in the reform of domestic trade taxes in India. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. India has been trying to implement the Goods and Service Tax (GST) for last few years but due to political and state government autonomy issues the federal government has been unable to make it a law. Intention to implement this was declared in 2008 and it was supposed to be in existence from April 2010. 85 percent of the revenue of state governments is generated from the indirect taxes on goods and services and sales tax alone accounts for 61 percent of the total revenue. Introduction of state level value added tax in 2005 led to uniform tax rates and eliminated cascading tax rates but it is still a step towards more comprehensive reforms as that of GST. In this paper, author tries to investigate various opportunities and challenges lay ahead for the state government in relation to GST in India.

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INTRODUCTION

GST at a Glance

Value added tax was first introduced by Maurice Laure, a French economist, in 1954. The tax was designed such that the burden is borne by the final consumer. Since VAT can be applied on goods as well as services it has also been termed as goods and services tax (GST). The date of introduction of Goods and Service Tax [*Goods and Service Tax ('GST')*] is like a 'mirage'. It looks like what it is not; and the closer you reach to this mirage, the farther it goes. GST is a value added tax (VAT) and do merged most of the indirect taxes exist at the level of state and federal governments. This will be a comprehensive tax for almost all goods and services. Some of the goods like crude oil, natural gas, turbine fuel, high speed diesel, and alcohol for human consumption are not included in the list due to import dependence, environmental and social reasons. Supposing that there is a chain indirect channel of distribution including producer, stockiest and the end user, assume that GST is 10%. Suppose the manufacturer purchases the inputs worth Rs.100 for producing a good worth Rs.150. He will pay net GST of Rs.5 by taking the tax credit of Rs. 10 on the inputs.

Similarly the wholesaler who buys this good and sells it for Rs.180 will pay net GST of Rs.3 and the retailer who sells it for Rs.200 will pay net GST of Rs.2 by taking the tax credit for his purchase which comes out to be Rs.20. Shoup (1988) indicates processed agriculture goods may still be exempted from the incidence of GST which will help in improvement of progressivity of the GST as VAT regime is considered to be regressive. Also some goods like luxury goods are to be taxed higher and will be out of the ambit of GST that will make it progressive. Piggott & Whalley (1998) describes Broader tax base is pro poor and is welfare worsening as poor people are sellers of informal sector goods while rich are buyer so there will be benefits to poor household while loss to rich household.

"A well designed destination-based GST on all goods and services is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as mere tax pass-through, and the tax essentially 'sticks' on final consumption within the taxing jurisdiction." (Kelkar, 2009). During the last four decades VAT has become an important instrument of indirect taxation with 130 countries having adopted this resulting in one-fifth of the world's tax revenue. Tax reform in many of the developing countries has focused on moving to VAT. Most of these countries have gained thus indicating that other countries would gain from its adoption (Keen and Lockwood, 2007).

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Challenges

Legislative challenge

The federal character of the constitution of India is essentially autonomy of the states to raise their own revenue and constitution provided the power to the union and state government to collect tax and levy tax as per the concurrent, union and states list. It is really restricting the government from bringing any change in this structure.

Benefit to the Indian economy

The socio-economic conditions of the States in India are much different than the countries of the European Union. Hence, it is argued that before implementing GST there should be a clear consensus whether there would be a net benefit for the Indian economy and/or whether Indian economy is ready to absorb the benefits of the GST regime.

Consensus

GST reflects that socio-economic conditions of countries differ; hence, a GST framework successful in any particular country may not necessarily be successful in other countries. Though GST has a number of administrative, compliance and other benefits, to what extent such a tax regime would be suitable in the socio-economic context of the Indian economy, is a matter of debate. From country experiences, it can be observed that GST is particularly suitable for countries with homogeneous commercial and demographic features.

Effective credit mechanism

The success of GST model will depend on effective credit mechanism to avoid cascading effect of multi-stage taxation in supply chain. The challenge for the government to introduce a seamless mechanism of credit across India.

Nature of taxes

The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. But, there are numerous other states and union taxes that would be still out of GST.

Management and Infrastructure

Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies. Simple system of the tax makes it more powerful.

Challenge like bullock cart stuck in the mud

GST involves not only considerable work but also formidable challenges. Unlike in many other countries where GST is a centralised tax in India it is leviable by both central and state governments. This implies that both the structure and administration of the levy will have to emerge after detailed negotiations and bargaining between the centre, 29 states and the two Union Territories with legislature. Given the sharp differences in the structure of the economy and sales tax revenues across states, the interests of the states do not always

coincide and considerable effort is needed to persuade them to adopt a uniform or even a broadly harmonized structure and administrative system for the tax.

More negotiation is necessary

There are a number of issues on which negotiations are necessary to reach a consensus between the centre and the states and among the states themselves. The first issue relates to the inclusion of taxes within the ambit of GST. The bone of contention relates to inclusion of purchase taxes on foodgrains, taxes on motor spirit and high speed diesel (GSD), and octroi or entry tax in lieu thereof.

Opportunities

To broaden the tax base

The important gains from the GST reform are that it is expected to broaden the tax base, reduce distortions in the economy through a more comprehensive input tax credit, enhance export competitiveness by comprehensively relieving domestic consumption taxes on exports, ensure greater regional equity by getting rid of inter-state sales tax and having a destination-based tax, and help create a seamless national market by removing inter-state trade barriers.

Reducing cost for taxpayers

Reform will significantly reduce the compliance cost for taxpayers by simplifying and harmonizing the tax structure and by making the administration uniform across states.

To end cascading effects

It will be the major contribution of GST for the business. Currently, there are different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

To develop harmonization

Constitutional provision does not allow both the Central and State Governments to tax both goods and services in an inclusive manner. The government has therefore recognized the need for harmonization of goods and services tax so that both can be levied in a comprehensive and rational manner in a new taxation regime – namely, Goods and Services Tax (GST).

Terminate multiple chain of taxation

The main benefit of Goods and Services tax is to eliminate multiple chain of the taxation. The terminate in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

Conclusion

Due to number of states and challenges lay ahead; it would take considerable time to finalize the structure and operational aspects of the tax. In view of this, the most optimistic scenario is that it would not be before 2016 that the tax would be implemented, even if the process of amending the Constitution

is completed. Every country has to adopt the structure it can administer. It is neither a gorilla, nor a chimpanzee, but a genus-like primate (Rao et al. 2011). It is strongly debatable on GST that a single GST rate is best for administrative efficiency. However, considering both the aspects of fiscal federalism as well as State revenue implications, a single rate is not feasible in the country of India. There are vertical inequalities of State Governments relative to the Central Government and horizontal inequality among State Governments in India, a single rate of GST is highly complicated to implement in the absence of compensation for States in India. Finally, it is said that government have both the side of the coin like opportunity and challenge. But, it is not easy for the government to take opportunities, without facing challenges.

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