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RESEARCH ARTICLE

GOODS AND SERVICES TAX (GST) IN INDIA - A POSITIVE REFORM FOR INDIRECT TAX SYSTEM

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ABSTRACT

There are mixed response, inexplicit, arguments and opinions among the Manufactures, traders and society about the Goods and Services Tax (GST) to be implemented by Government of India from 1st April 2017 this year. Various news organizations from all around the world focused on the bill unifying the country and it being an achievement of the government. As the Goods and Services Tax Bill was passed in the Rajya Sabha, it also brought India at the center of the global economy. With the passing of the bill, many international newspapers published their views on how the GST Bill brings a new wave of economic reform in the country. The paper highlights the background, Prospectus and challenges in Implementation of Goods and services Tax (GST) in India. Finally, the paper examines and draws out a conclusion.

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INTRODUCTION

The 'Book of Genesis' in The Bible suggests that a fifth of all crops should be given to the Pharaoh. The city states of Ancient Greece imposed eishpora to pay for wars, which were numerous; but once a war was over any surplus had to be refunded. Athens imposed a monthly poll tax on foreigners. Imperial Rome used tribute extracted from colonized peoples to multiply the bounty of empire. Julius Caesar imposed a one-per-cent sales tax; Augustus instituted an inheritance tax to provide retirement funds for the military. However, human bondage remained the most lucrative form of tribute for both Greece and Rome (*Courtesy* New Internationalist Magazine).

(a) Indian Taxation System

India has got a well-structured and simplified taxation system, wherein an authoritative segregation has been done among the Central Government, the different State Governments as well as the Local Bodies. The Department of Revenue under the Government of India's Ministry of Finance is solely responsible for the computation of tax. This department levy taxes on individuals or organizations for income, customs duties, service tax and central excise. However, the agriculture based income taxes are levied by the respective State Governments.

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Local bodies have got the power to compute and levy taxes on properties and other utility services like drainage, water supply and many others. The past 15 years have witnessed tremendous reformations of the taxation system in India. Apart from the rationalization of the rates of tax, simplification of the different laws of taxation has even been done during this period. However, the process of tax rationalization is still in progress in the Republic of India. Courtesy New Business Maps of India)

(b) Constitutional amendment act. For GST

The One Hundred and First Amendment of the Constitution of India, officially known as The Constitution (One Hundred and First Amendment) Act, 2016, introduced a national Goods and Services Tax in India from 1 April 2017. The GST is a Value added Tax (VAT) and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the IGST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages Indian Central and State governments. It is aimed at being comprehensive for most goods and services. The GST implementation in India is

"Dual" in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST).

MATERIALS AND METHODS

The Researchers used an exploratory research technique based on past literature from respective journals, annual reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

Objectives of the study

1.To study the inexplicit opinions among the Manufactures, traders and society about the Goods and Services Tax (GST).
2.To study about the Challenges of Introduction of Goods and Service Tax (GST in India).
3.To Study on Prospects in Implementation of Goods and services Tax (GST) in India

Features of proposed GST

AMBIT OF GST

a) It is applied to all taxable goods and services except the exempted goods and services and on transactions below the threshold limit.
b) Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate. [Proposed article 366(12A)]
c) Petroleum products [crude oil, HSD (high speed diesel), motor spirit(petrol), natural gas, ATF(aviation turbine fuel)] are initially exempted from GST till the GST Council announces date of their inclusion.
d) Tabaco products are included in GST along with central excise tax.

Imposition and collection of GST

a) The power of making law on taxation of goods and services lies with both union and state legislative assemblies. A law made by union on GST will not overrule a state GST law.(proposed article 246A)
b) GST has two components CGST and SGST as discussed above. CGST will be collected by central government whereas states governments will collect SGST.
c) IGST is levied on supplies in the course of interstate trade incuding imports which is collected by central government exclusively and distributed to imported states as GST is destination based tax. The proportion of distribution between center and states is decided on recommendation of GST Council.(proposed article 269A)

GST council

a) It is set up by president under article 279-A. It is chaired by union finance minister.
b) It will constitute union minister of state in charge of revenue and minister in charge of finance or taxation or of any other field nominated by state governments. The 2/3rd representatives in council are from states and 1/3rd from union.
c) The decision of council is made by 3/4th majority of the votes cast and quorum of council is 50%.
d) It will make recommendations on
    - Taxes, surcharge, cess of central and states which will be integrated in GST.
    - Goods and services which may be exempted from GST
    - Interstate commerce – IGST- proportion of distribution between state and center
    - Registration threshold limit for GST
    - GST floor rates
    - Special rates during calamities
    - Provision with respect to special category states specially north east states
e) It may also work as Dispute Settlement Authority for GST.

ADDITIONAL 1% TAX

a) Additional 1% tax on interstate taxable supply of goods which is levied by center and directly portioned to the exporter state (origin state).
b) This tax will be charged for two years or for longer time period recommended by GST Council.

Compensation to states

a) For maximum of 5 years union will compensate states for the revenue losses arising out of GST implementation.
b) This compensation will be made on the recommendation of GST Council.

Indirect taxes included under GST

The following indirect taxes from state and central level is going to integrated with GST

(A)State taxes

- VAT/Sales tax
- Entertainment Tax (unless it is levied by local bodies)
- Luxury tax
- Taxes on lottery, betting and gambling.
- State cesses and surcharges in so far as they relate to supply of goods and services.
- Entry tax not on in lieu of octroi.
- Purchase tax (This is not sure still under discussion)

(B) Central Taxes

- Central Excise Duty.
- Additional Excise Duty.
- The Excise Duty levied under the medical and Toiletries Preparation Act
- Service Tax.
- Additional Customs Duty, commonly known as countervailing Duty (CVD)
- Special Additional duty of customs- (SAD)
- Surcharges
- Cesses The above taxes dissolve under GST; instead only CGST & SGST exists.

Advanages of GST

Under GST regime the burden of taxation will be allocated fairly between manufacturing and services via lower tax rates resulting in increased tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration. It is expected to remove the cascading effects of taxes and help in establishing of common national market. Apart from this some more advantages of GST are listed below:

IGST- effective logistics

In current indirect tax system central sale tax (CST) is paid on interstate commerce of goods. 2% standard rate of CST is levied and distributed to exporter state as it is origin based tax. The input credit of CST can be offset with CST liabilities only. CST is paid only on interstate commerce of goods and not on supply (transportation) of goods. So, to avoid this tax large corporates build their own godowns in different states and transport their goods among states without paying CST which finally leads to decrease in cost of their product. Because of this tax dodging through warehousing by big corporates growth of small and medium enterprises hampered and they cannot survive in the market. But, in proposed GST tax regime IGST is levied on interstate commerce and supply (both) of goods and services. Due to this an effective logistics system will come up which will prevent the tax dodging through warehousing by big corporates. This will protect small and medium enterprises from unhealthy competition of big corporates.

Ancillarization

In present indirect tax regime all big corporates want to produce each and everything in-house only in order to reduce CST and cascading effect of tax. But in proposed GST system there is no CST and cascading effect which will lead to outsourcing, subcontracting and division of labour. Because of this specialization will increase in future which will help in reducing the cost of production. With the reduced prices domestic goods will be more competitive in international market which will result in increased export and help country to reduce current account deficit.

Single base computation

With the introduction of GST cascading effects of taxes will not exists and there will be a single base for computation of tax for both central government and state government. Initially state governments will lose tax revenue due to less taxable value of goods. But in later years due to availability of cheap goods the number of taxpayers will increase and overall tax collection of states will also boost. This increase in tax revenue will lead to fiscal consolidation which is demanded by current state of Indian economy. As per CRISIL recent report GST is best reckon for fiscal consolidation as there is not much scope to cut government expenditure in India.

Export will be zero rate

No GST will be levied on exports because of which input credit of exporter will not be affected and he/she can use these input credit in future. With zero rated exports, domestic goods will be more competitive in international market and will help in increasing exports which in turn the fulfillment of objective of 3.5% share of India in world exports by 2020.

Simple tax structure

As multiple indirect taxes of state and central governments on goods and services will be replaced by a single tax, the tax structure will be hoped much simpler and easier to interpretate. Reduction in the accounting complexities for business will make the manufacturing sector more competitive and boost the economy by 1%-2%.

Challenges of gst

High Revenue Neutral Rate (RNR)

RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means ,the rate of GST which will give at least the same level of revenue that is currently earned by state and central governments from indirect taxes is known as RNR. As per 13 finance commission the RNR should be 12% whereas state empowered committee demanding 26.68%. Union government is reckoning the rate band should be 15%-20% which is very high as compare to other counties. Hungary implemented GST from 1/4/2014 with 7% rate. Due to high RNR

- Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking.
- Tax evasion and smuggling will increase.
- Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index.

So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

Compensation to states

Currently, VAT is highest contributor in tax revenue of state governments. But after GST reform this will subsumed along with surcharge and cess into GST. Due to which state governments will occur revenue loss for sure and they will be more dependent on finance commission for tax devolution (currently 42%). To neutralize their revenue losses states are demanding compensation from union government. As per 14 finance commission union has to compensate states for maximum of five years with tapering effects. For first three years 100% compensation reduced to 75%and 50% in fourth and fifth year respectively. This compensation by union will lead to fiscal burden and may not fulfill the fiscal deficit target of 3% by March 2017 announced by finance minister in 2015 budget. This fiscal target must be achieved for faster economy growth and full capital account convertibility in future. Industrialized states will be at loss in GST regime due to its destination based feature. It will demotivate the manufacturing industry and incite states to import more in order to increase their tax revenue. It is not good for manufacturing industry as well as for India because boosted manufacturing sector is the main driver of our economic growth in future. For temporarily relief to industrialized states additional 1% tax for two years on interstate sale and supply of goods is proposed in GST. Bit with 1% additional tax, the main objective of GST to minimize cascading effect of taxes is fading out. So, to minimize cascading effect this additional tax at least should not be levied on supply of interstate goods.

Registration Threshold Limit

At present there are different threshold limits for VAT (5 lacs), service tax (10 lacs) and excise duty (1.5 crore). But for implementation of GST common threshold limit for all indirect taxes is required. It will turn into a conflict between state and center. States want to fix the limit as 10 lacs opposing 25 lacs limit suggested by union. The lower threshold limit will broaden the tax base and increase the revenue of government but it will also require a dandy IT infrastructure, to address the database of increased assess, which is presently missing out in Indian states. IT infrastructure will play a vital role in implementing IGST as union will electronically distribute IGST to states. To grapple the data base a strong network is required which is managed by GSTN (Goods and Service Tax Network) proposed in GST. GSTN has major responsibility to tackle biggest challenge of IT infrastructure in a time bound manner.

Other issues

- Union government need to coordinate with 30 states for "input credit" due to transfer of credit in SGST.
- State tax officials training and development before implementation of GST.
- Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge.
- Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. (A study commissioned by Curtin university of technology)

Way forward for implementation of GST

- The 122nd amendment bill to be passed by upper house with 2/3rd majority and then will be ratified by at least 50% state legislatures and will be followed by assent of president.
- After the bill has been passed, GSTC (GST Council) to be established.
- GSTC to advocate GST law and procedure.
- GST law to be introduced in parliament.
- GSTN (GST Network) a section- 25 company established to design IT infrastructure of GST

Challenges in Implementing GST

- Note ban has huge impact on the Goods and Services Tax (GST) a serious doubt on implementing GST by the central government`s targeted deadline of April 1, 2017..
- The impact of the November 8 demonetization of high value currency on their respective economies to underline that it is not the appropriate time to implement. That could have a unstable effect on the economy.
- The Centre continues to be un compromising on the issue of jurisdiction over assesses, the states maintain.
- Political reasons are determining the fate of GST, which is not the correct thing, because ideally GST is an economic and tax reform, and economic and tax reforms should not be dictated by political.
- Manufactures, traders and society are eagerly waiting not only for the date of introduction of GST but also for the rate application to the products and services.
- GST will also have impact on cash flow and working capital. Cash flow and working capital of business organizations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.
- Implementation of GST in Unorganized sectors i.e, unregistered firm will be unfavorable to government.

Prospects of Implementing GST

The introduction of Goods and Service Tax (GST) in India is now on the horizon. The Constitution Amendment Bill to replace existing multiple indirect taxes by uniform GST across India.

a) The current indirect tax structure is major impediment in India's economic growth and competitiveness. Tax barriers in the form of CST, entry tax and restricted input tax credit have fragmented the Indian market. Cascading effects of taxes on cost make indigenous manufacture less attractive. Complex multiple taxes increase cost of compliance. In this scenario, the introduction of GST is considered.
b) Removal of tax barriers on introduction of uniform GST across the country with seamless credit, will make India a common market leading to economy of scale in production and efficiency in supply chain. It will expand trade and commerce. GST will have favorable impact on organized logistic industry and modernized warehousing.
c) Electronic processing of tax returns, refunds and tax payments through 'GSTNET' without human intervention, will reduce corruption and tax evasion. Built-in check on business transactions through seamless credit and return processing will reduce scope for black money generation leading to productive use of capital.
d) Major beneficiary of GST would be sectors like FMCG, Pharma, Consumer Durables and Automobiles and warehousing and logistic industry.
e) High inflationary impact would be on telecom, banking and financial services, air and road transport, construction and development of real estate,

Conclusion

Due to dissilient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.

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