



GST IN INDIA: A KEY REFORM IN INDIRECT TAXATION SYSTEM

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Abstract

The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. Goods and Services Tax (GST) is comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. 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. 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.

Keywords: Goods and Service Tax (GST), Economic Reforms, Value Added Tax, Rajya Sabha, Global Economy.

Introduction

The word “tax” is derived from Latin word “*taxare*” which means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. Indian Taxation System comprise of- Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country. So, GST is the need of the hour.

Goods and Services Tax (GST) is an indirect tax throughout India to replace taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and Twenty Second Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by GST Council and its Chairman is Union Finance Minister of India - Arun Jaitley. GST is expected to be applicable from 1 July 2017.

The reform process in indirect tax regime of India was started in 1986 by Kamatchi Udhayakumar by introduction of Modified Value Added Tax (MODVAT). Goods and services tax (GST) will subsume various indirect taxes including central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. Other levies which are currently applicable on inter-state transportation of goods are also likely to be done away with in GST regime.

The following taxes will be bound together by the GST:

- Entertainment Tax
- Entry Tax
- Advertisement taxes
- Taxes applicable on lotteries

GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India will adopt a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state will be levied with Central GST (CGST) by the Central Government and State GST (SGST) by the government of that state. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption based tax, therefore, taxes are paid to the state which the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them to collect the tax owed to them directly from the Central Government. Under the previous system, a state would have to only deal with a single government in order to collect tax revenue.

Literature Review

Dr. R. Vasanthagopal (2011) studied, “GST in India: A Big Leap in the Indirect Taxation System” and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.



Agogo Mawuli (May 2014) studied, “Goods and Service Tax-An Appraisal” and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth.

Ehtisham Ahmed and Satya Poddar (2009) studied, “Goods and Service Tax Reforms and Intergovernmental Consideration in India” and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

Nitin Kumar (2014) studied, “Goods and Service Tax- A Way Forward” and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Pinki, Supriya Kamma and Richa Verma (July 2014) studied, “Goods and Service Tax- Panacea For Indirect Tax System in India” and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.

Jaiprakash (2014) in his research study mentioned that the GST at the Central and the State level are expected to give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST and phasing out of CST. Responses of industry and also of trade have been indeed encouraging. Thus GST offers us the best option to broaden our tax base and we should not miss this opportunities to introduce it when the circumstances are quite favorable and economy is enjoying steady growth with only mild inflation.

Objectives

- To study the concept of Goods and Services Tax (GST) and its relevance.
- To understand how GST will work in India.
- To know the advantages and challenges of GST in Indian context.

Research Methodology

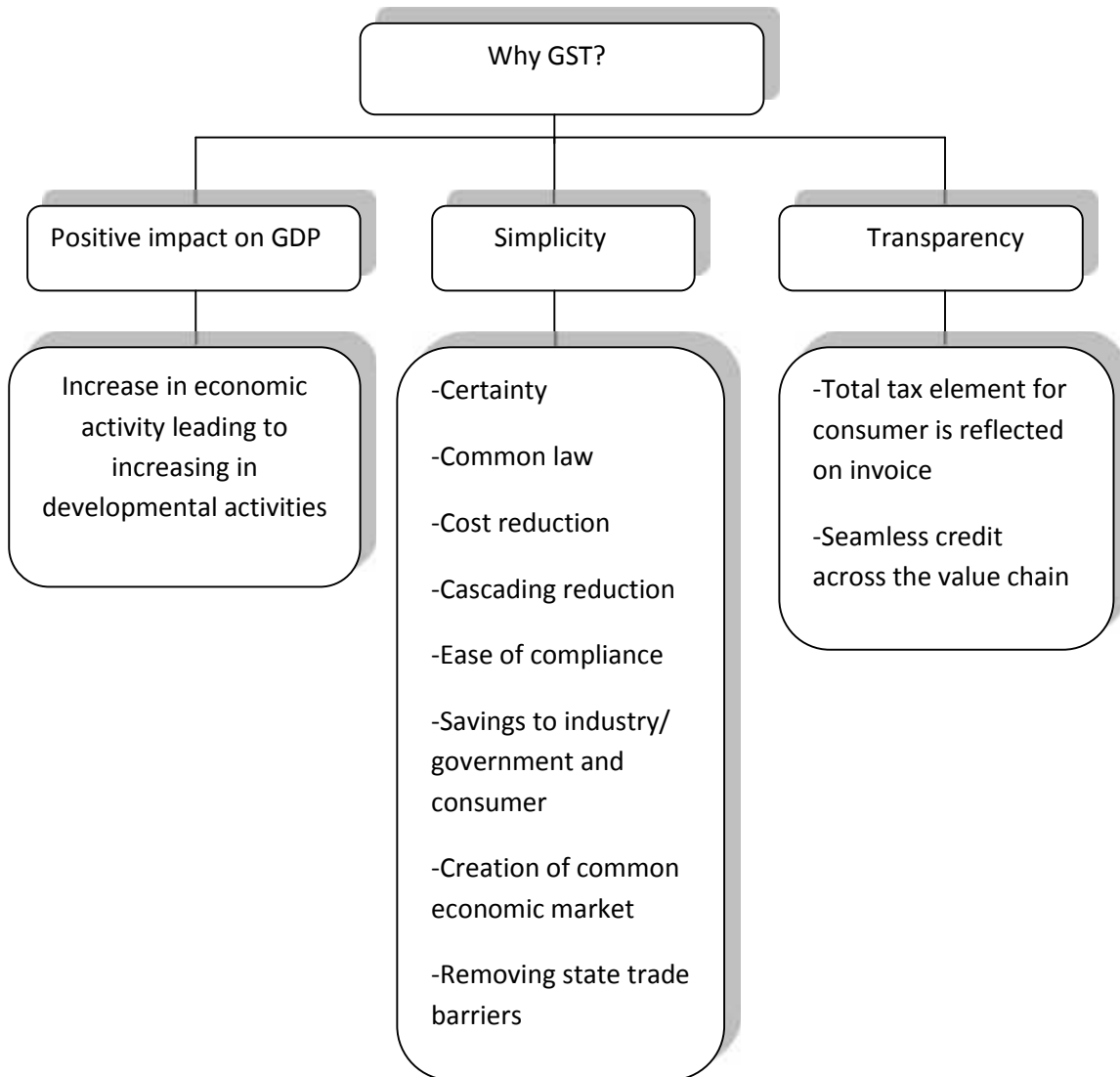
Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study.

Concept of Goods and Service Tax

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. One of the biggest taxation reforms in India the (GST) is all set to integrate State economies and boost overall growth. GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax, service tax, special additional duty on customs, counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.



Relevance of GST



GST – How It Works In India?

India is opting for Concurrent Dual GST model. The need for a Dual-GST model is based on the following premise:

- At existing framework, both levels of Government i.e. Centre and State, as per Constitution holds concurrent powers to levy tax domestic goods and services;
- The proposed Concurrent Dual-GST model would be a dual levy imposed concurrently by the Centre and the States, but independently;
- Both the Centre and State will operate over a common base, i.e. the base for levy and imposition of duty/tax liability would be identical.

To understand the operating procedure of Concurrent Dual GST Model we have to consider the tax/taxes which shall be levied as per place of supply of goods and services.

- CGST – Central Goods and Service Tax
- SGST – State Goods and Service Tax
- IGST – Integrated Goods and Service Tax

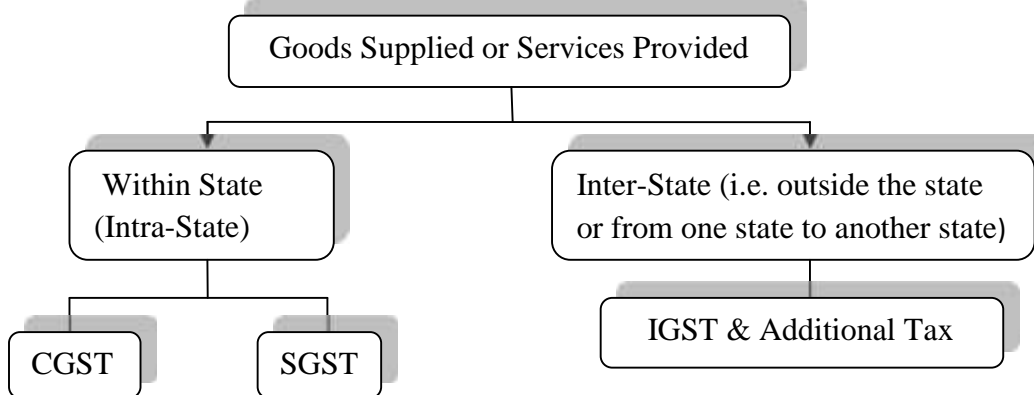
Additional Tax (upto 1%) to be levied in case of inter-state supply of goods, which is a non-vat able item. Hence, no input credit available on such.



A summary of levy and the imposing and collecting authority:

| Nature of Levy | To be levied by | To be paid to the account of |
|----------------|---|------------------------------|
| CGST | Central Government on Intra State Supply of Goods and/ or Services | CG |
| SGST | State Government on Intra State Supply of Goods and/ or Services | SG |
| IGST=CGST+SGST | Central Government on Inter State Supply of Goods and/or Services | CG |
| Additional Tax | Central Government on Inter-state supply of goods, but the net proceeds to be assigned to the States from where supply originates | CG |

Now we will try to understand when each of these will be levied by the below chart:



GST Slab Rates

The Goods and Services Tax (GST) will be levied at multiple rates ranging from 0 per cent to 28 per cent. GST Council finalized a four-tier GST tax structure of 5%, 12%, 18% and 28%, with lower rates for essential items and the highest for luxury and de-merits goods that would also attract an additional cess.

Service Tax will go up from 15% to 18%. The services being taxed at lower rates, owing to the provision of abatement, such as train tickets, will fall in the lower slabs.

In order to control inflation, essential items including food, which presently constitute roughly half of the consumer inflation basket, will be taxed at zero rate.

The lowest rate of 5% would be for common use items. There would be two standard rates of 12 per cent and 18 per cent, which would fall on the bulk of the goods and services. This includes fast-moving consumer goods.

Highest tax slab will be applicable to items which are currently taxed at 30-31% (excise duty plus VAT).

Ultra luxuries, demerit and sin goods (like tobacco and aerated drinks), will attract a cess for a period of five years on top of the 28 per cent GST.

The collection from this cess as well as that of the clean energy cess would create a revenue pool which would be used for compensating states for any loss of revenue during the first five years of implementation of GST.

Finance minister said that the cess would be lapsable after five years.

The structure to agree is a compromise to accommodate demand for highest tax rate of 40% by states like Kerala. While the Centre proposed to levy a 4% GST on gold but the final decision on this was put off. During a press conference, finance minister Mr. Jaitley said, "GST rate on gold will be finalised after the fitting to the approved rates structure of all items is completed and there is some idea of revenue projections".



The principle for determining the rate on each item will be to levy and collect the GST at the rate slab closest to the current tax incidence on it.

The GST will subsume the multitude of cesses currently in place, including the Swachh Bharat Cess, the Krishi Kalyan Cess and the Education Cess. Only the Clean Environment Cess is being retained, revenues from which will also fund the compensations.

Advantages of GST

I. For Business and Industry

- **Easy Compliance:** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore, all tax payer services such as registrations, returns, payments, etc. would be available to the taxpayers online, which would make compliance easy and transparent.
- **Uniformity of Tax Rates and Structures:** GST will ensure that indirect tax rates and structures are common across the country, thereby increasing certainty and ease of doing business. In other words, GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
- **Removal of Cascading:** A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes. This would reduce hidden costs of doing business.
- **Improved Competitiveness:** Reduction in transaction costs of doing business would eventually lead to an improved competitiveness for the trade and industry.
- **Gain to Manufacturers and Exporters:** The subsuming of major Central and State taxes in GST, complete and comprehensive set-off of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports. The uniformity in tax rates and procedures across the country will also go a long way in reducing the compliance cost.

II. For Central and State Governments

- a) Simple and easy to administer: Multiple indirect taxes at the Central and State levels are being replaced by GST. Backed with a robust end-to-end IT system, GST would be simpler and easier to administer than all other indirect taxes of the Centre and State levied so far.
- b) Better controls on leakage: GST will result in better tax compliance due to a robust IT infrastructure. Due to the seamless transfer of input tax credit from one stage to another in the chain of value addition, there is an in-built mechanism in the design of GST that would incentivize tax compliance by traders.
- c) Higher revenue efficiency: GST is expected to decrease the cost of collection of tax revenues of the Government, and will therefore, lead to higher revenue efficiency.

III. For the Consumer

- Single and transparent tax proportionate to the value of goods and services: Due to multiple indirect taxes being levied by the Centre and State, with incomplete or no input tax credits available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST, there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- Relief in overall tax burden: Because of efficiency gains and prevention of leakages, the overall tax burden on most commodities will come down, which will benefit consumers.

Challenges Ahead With Regard to GST Implementation

- **Clubbing Taxes:** The biggest challenge of GST implementation is bringing all the indirect taxes under one roof, which is the biggest feature of GST. There has been opposition asking to including purchase tax by a few states. Other states are reluctant about alcohol, tobacco products coming under GST. This is due to the fact that a major chunk of state revenue is derived from these products.
- **Statutory Requirements:** As the imposition of GST will be delegated to both state and central government, the constitution has to grant powers to both through an amendment. It is seen as a difficult task as the law expects at least two-thirds majority from the members of the parliament and that isn't easy given the current political scenario of the country.
- **Make-shift Arrangements:** State governments are demanding compensation from the central government as they foresee a major dent in the revenue due to CST losses. This is asked for the first 5 years after the implementation of GST, for which the central government has agreed to 3 years. A final conclusion is yet to be drawn.



- **Framework for Tax Disputes:** There has to be a uniform legal procedure for tax disputes and litigations to avoid any confusion.
- **Defining Inter-State Transactions:** With the transportation services available everywhere, the place of sale and consumption may not be the same. This makes it difficult to go forward with revenue allocation. Hence, it becomes important to define procedures to tackle such problems.

Conclusion

Due to dynamic 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. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Thus, necessary steps should be taken.

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