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GOODS AND SERVICE TAX IN INDIA: A THEORETICAL APPROACH

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Abstract
The Government of India has leave no stone unturned to roll out Goods and Service Tax (GST) by July 1, 2017 to strengthen her free market economy and create an integrated market. The paper is an attempt to understand the concept of goods and service tax. It highlights the background, objectives, features, prospects and challenges of implementing Goods and services Tax in India. GST is not an additional new tax but will only replace other taxes. It is a welcome change and is expected to mobilize more revenue and reduce the fiscal deficit in the economy. It will have far-reaching impact on all sections of the economy. The GST was proposed to be introduced with the objectives of eliminating cascading effect of taxation by ensuring input tax credit in all stages of value chain and integrate India into a single common market though uniform tax rate across the country.

Keywords: Goods and Service Tax, Value Added Tax, Cascading Effect, Central GST, State GST, Integrated GST.

Introduction
If India wants to be economically efficient and more competitive, she needs to iron out the seams in the nature of the existing complicated and complex indirect tax system. The existing tax structure consists of cascading effect (tax on tax) which adds to cost of goods and services, thereby increasing the tax burden, the final consumer have to bear. With a view to unify the country, simplify tax structure and phase out cascading effect, the Government of India is all set to implement the long pending and much awaited tax reform, 'The Goods and Services Tax (GST)' from 1st July, 2017. It is going to be one of the most important and biggest tax reforms in her tax history.

The Goods and Services Tax subsumed several indirect taxes from both state and national level into a single tax. The GST is designed with the objective to bring uniformity in taxes and create a single unified market. It gives a widespread set-off for input tax credit. It is a great step towards transparency, efficiency and would pave the way for a common market. The overall tax burden on goods would be reduced and the competitiveness of Indian products would be enhanced both in the domestic and international markets. GST was considered with the concept of 'One Nation-One Tax-One Market'. As uniform tax rate would be applied, price levels would be lowered and hence inflation rates would come down thereby creating a business friendly environment.

Review of Literature
Garg (2014) traced the historical scenario of Indian taxation and its tax structure. The background, salient features, objectives and the impact of GST was described in the study. The GST affects all sectors and sections of the economy and is aimed at creating a single, unified market that will benefit both trade and industry and the economy. The researcher is of the opinion that setting of threshold limit for turnover is one of the areas which have to be strictly considered, as it should neither be too low to be a burden to small traders and increase administrative cost nor too high to shrink the tax base as it would naturally reduces tax revenue. The success of any tax reforms also depends to a large extends on the simplifications of the tax system. The study concluded that GST would streamline the indirect tax regime and remove cascading effect at all stages in the production and supply chain.

Sehrawat & Dhanda (2015) states that GST is one of the most important tax reforms and is expected to play a vital role in the growth of India. It has being long pending due to political issues and conflicting interests of various stakeholders. The paper studies the advantages of GST and challenges likely to be faced in its implementation. Implementation of GST will lower cost of doing business, and thus enhancing the competitiveness of the domestic products in the market, subject to its rational design and timely implementation. They suggested that analytical research is necessary to settle the battling interest of various stake holders and achieve the commitment of the most important tax reforms in India.

Objectives of the Study
- To study the concept of Goods and Services Tax and understand how it will work in Indian Context.
- To examine the problems and prospects of implementing Goods and Service tax in India.

Research Methodology
The study is purely based on secondary data collected from journals, articles, newspapers and magazines. Considering the objectives of the study, the accessible secondary data is intensively used.

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Evolution of GST in India

The idea of introducing GST was first considered in 2006, when the then Union Finance Minister, P. Chidambaram announces that GST would be introduced in India from 01-04-2010. The Empowered Committee of State Finance Ministers was asked to prepare a roadmap for the introduction of GST in India. In 2007, the empowered committee of State finance ministers set up a Joint Working Groups of officials with representatives of both the States and the Centre as members and the Union Finance Minister and the Member-Secretary of Empowered Committee as Co-conveners. This Joint Working Group examined the various aspects of GST and submitted it to the Empowered Committee. After further discussions and making necessary changes, the Empowered Committee sent its view on GST structure to the Government of India in the year 2008. After receiving and considering the comments of the Government, the Empowered Committee released the first Discussion paper on GST in 2009, which became the basis for further discussions. The 115th Constitutional Amendment Bill 2011 was introduced in the parliament to clear the way for implementation of GST. The 115th Amendment Bill lapsed and the 122nd Constitutional Amendment bill was introduced in 2014. Lok Sabha cleared the constitution (122nd Amendment) Bill on May 6, 2015.

Concept of Goods and Service Tax in India

GST is based on the concept of VAT. It is a final consumption tax collected at every stage of value addition. GST is based on the destination principle so as to ensure that the tax burden is distributed according to individual consumption. It is designed to impose tax on final consumption by households in the jurisdiction where it occurs. In other words, the tax on goods goes to the state in which the final consumer lives and hence the burden does not rest on the business. In order to avoid cascading and ensure that the final burden falls on the consumption and not on the business, the GST on inputs will generally be allowed for set-off against the GST paid on the output. Thus, the tax burden on the final consumer will be the tax imposed by the last dealer in the production and distribution chain. In the existing tax structure separate tax rates are applied to goods and services. But under the proposed GST Model, there will be only one tax rate for both goods and services. There is no distinction between goods and services for the purpose of tax and a common legislation is applicable to both. The GST is applicable to all goods and services in the form of value added except goods which are not within the purview of GST or exempted goods and services.

In consistent with the federal structure of the country, India is opting for Concurrent Dual GST mode. It has two components known as the Central Goods Service Tax (CGST) to be levied by the central and State Goods and Service Tax (SGST) to be levied by the states. CGST and SGST will be levied on the taxable value of every transaction of supply of goods and services. Both the Centre and State Government holds concurrent powers to levy tax on domestic goods and services and will operate over a common base. Integrated Goods and Service Tax (IGST) will be imposed on interstate transactions. The CGST and SGST will be treated as separate account and thus, Central GST paid shall be taken as input tax credit only in respect of Central Goods and Service tax paid. In other words, the input CGST paid shall not be allowed as a set-off against SGST. The same goes with that of State GST.

Central taxes to be subsumed under GST	State taxes to be subsumed under GST
Central Excise duty	State Value Added Tax
Additional Excise Duties	Entertainment Tax (other than those levied by local bodies)
Service Tax	Central Sales Tax
Additional Customs Duties	Luxury Tax
Special Additional Customs Duty	Octroi and Entry Tax
Central Surcharges and Cess	Purchase Tax
	Taxes on lotteries, betting and gambling
	State Surcharges and Cesses

Petroleum products, Tax on alcoholic liquor for human consumption, Tax on entertainment and amusement levied and collected by Local State Bodies, Stamp duty, Customs duty, taxes on consumption or sale of electricity etc. will not be subsumed under GST.

Threshold limit was introduced with the objectives of reducing administration cost and to relieve small tax payers from compliance cost and give them advantages over larger firms and industries on account of lesser tax burden. In order to provide for losses emerging on account of phasing out of CST and cascading effect through input tax, compensation for loss will be provided for the next five years after implementation.

The GST was proposed to be introduced as an indirect tax reform with the following objectives:

- To eliminate or minimize cascading effect of taxation by ensuring input tax credit in all stages of value chain.
- To simplify tax structure and administration by eliminating multiplicity of indirect taxation.
- To integrate India into a single common market though uniform tax rate across the country.
- To minimize tax rates and widen tax base.
- To prevent unhealthy competitions in the Indian market and make exports more competitive.
- To enhance voluntary tax compliance and reduce evasion.

Justification for Introduction of GST in India

The introduction of Central Value Added Tax (CENVAT) in the central and Value Added Tax (VAT) in the States has minimized the cascading effect (tax on tax) to a large extent by way of "set off" for input tax paid. VAT has proved to be an improvement over the previous central excise duty and sales tax regime of the State Governments. However, both the CENVAT and the State VAT does not completely remove the cascading effect and several indirect taxes, such as additional excise and custom duties, surcharges, luxury tax, and entertainment tax etc. were beyond the purview of VAT. Implementation of GST would reduce multiplicity of taxes by subsuming major indirect taxes both at central and state level. The additional burden of multiplicity of indirect taxes in the existing tax system would also be removed. Continuous chain of input tax set-off at all stages of value addition would eliminate the cascading effect and lead to reduction of overall tax burden. The introduction of GST will also lead to revenue gain for the Centre and the states through widening of the tax base and increased compliance. GST is an improvement over both VAT and the disjointed service tax.

GST Rates in India

Under the proposed GST, rates for both CGST and SGST would be common for all the states. The GST Council have decided a four tier rate tax Structure of 5 per cent, 12 per cent, 18 percent and 28 percent, with lower rates for essential items and the highest for luxury and demerits goods.

S. No	Goods Service Tax Rates	Items
1	0%	Exempted Goods
2	5%	Essential Goods
3	12%	Standard slab rate
4	18%	Standard Slab rate
5	28%	De-merit and Luxury goods
6	Exports would be zero-rated	

Impact of Goods and Service Tax in India

- Removal of Cascading Effect: Due to minimization or removal of cascading effect by way of input tax set-off, the cost of goods and services would be reduced. Taxes paid at earlier stages would be available for set off against GST paid for output. By removing tax on tax, prices of goods and services would be reduced and thus, improve the cost-competitiveness of goods and services in the markets.
- Reduce Multiplicity of taxes: Major Indirect taxes both at central and state level would be subsumed into GST. It would cover both goods and services, reducing multiplicity of taxes.
- Unified Market: By ensuring uniformity of tax system across the states, it would create a Common Economic Market and enhance ease of doing business in India
- Simple tax structure: Uniformity and fewer rates for CGST and SGST would simplify the tax regime.
- Enhance Compliance: Widening of tax base, lower and uniform SGST and IGST rates would reduce incentive for tax evasion and enhance compliance.
- Easy Administration: The administration of tax would be easier and cost of administration would be reduced due to computerization of taxation and removal of multiplicity of taxes.
- Efficient Revenue Generation: Simplification of tax structure and widening of tax base leading to more registration and enhance compliance and would eventually Increase collection of GST.
- Compensation for Loss of Revenues: The government will compensate for any loss of revenue to the states, emerging on account of phasing out of multiple indirect taxes and cascading effect, for the next five years after implementation.
- Reduction of prices: Removal of cascading effect by way of a comprehensive input tax credit against output tax payment will lower prices of product as input tax will not be added to the prices of goods. This would result in boosting Indian's exports by increasing the competitiveness of the goods in the international market.

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- Widen Tax Base: Tax base will be widen by covering both goods and services.
- Transparency: GST will improve transparency as the customers would know exactly how much taxes have being charged from them.
- Reduction of Corruption and Evasion: All tax returns, refunds and payment will be processed through automated procedures with less human intervention leading to reduction in corruption and improvement in compliance procedures.
- Reduction of Administration and Compliance Cost: Tax rates and procedural uniformity across the country will help in reduction of administrative and compliance cost.

Prospect of GST in India

The current complex indirect tax structure with multiple taxes, cascading effects, restricted input tax credit and fragmented markets have being a major impediments to the economic growth of the country. It has increase the cost of products and reduces its competitiveness in the market. Thus, introduction of uniform GST across the country with seamless in put tax credit was considered. By providing comprehensive input tax and service tax set-off, GST would bring an end to cascading effects and eliminates multiplicity of taxes. Subsuming the various indirect taxes into GST, would make India a common market leading to economy of scale in production and expansion of trade and commerce.

It is also expected that the introduction of GST will lead to growth in resource and revenue of both the states and the union by increasing tax base and lowering tax rates, thereby enhancing compliance. Processing of tax returns, refunds and tax payments electronically without human intervention will reduce corruption and tax evasion. Another contribution of GST is the reduction of transaction and compliance cost and unnecessary wastages. The average tax burden that consumers have to bear is expected to be reduced under the GST regime. Harmonization of administration and tax rates for both goods and services across states would go a long way in minimizing distortions and reducing administrative and compliance costs.

Challenges of GST

The GST is no doubt going to be one of the most important indirect tax reforms in the country. Yet there appears to be certain loopholes in the proposed tax structure which may hinder delivering the desired results. India has decided to adopt a concurrent GST, where the central and State governments will share a common tax base consisting of both goods and services, making the entire structure of GST complicated as the centre have to coordinate with its 29 states and 7 union territories. There will be two laws for GST, one at a centre level called as the Central Goods and Service Tax (CGST) and the other at the state level called the State Goods and Service Tax (SGST).

Transition to GST not only involves a lot of work but also considerable challenges like lack of adaptation, lack of trained staff, lack of required infrastructure etc. If GST is to be effectively implemented, proper training of tax administration staff – both at central and state levels is required in terms of concept, procedure, legislation etc. The GST being a destination based tax, clear identification as to where the goods are going is essential. But it would be difficult in case of services, as it is not easy to identify where a service is provided.

For implementing GST, a robust and infallible IT system is the backbone, without which the process of GST will be extremely complex. All process of tax compliance like registration, filing of returns, payment, refunds of tax, IGST settlements etc. will be done online, necessitating integration and up gradation of existing IT infrastructure and systems. This may be a hurdle for small and medium sized enterprises as they may not be well equipped for these changes. Training of staff is required not only to understand tax implications of GST, but also on the procedural aspects like enrolling and uploading of returns online.

Conclusion

Implementation of GST is a step towards a comprehensive and widespread indirect tax reforms in the country. It is considered to be a significant breakthrough and a major improvement over the central excise duty and the value added tax system of the central and the state government respectively. GST is an excellent step forward and it will help in the growth of our economy. It is not only a beneficial set up for consumers and the industry but also would lead to increase in revenue to Government through widening of tax base and improving tax compliance. GST will also provide relief to producers and consumers by subsuming several indirect taxes and providing a wide and seamless input tax credit set-off.

No doubt, GST will simplify the existing indirect tax system and help in removing inefficiencies created by the existing heterogeneous tax system, but the success of GST depends to a large extend on concentrated efforts of all stakeholders viz. the central and state government, the trade and industries and also awareness among the consumers. It is likely to succeed

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only if the country has a strong IT network. The superiority of GST will also depend on the design of its structure and the manner of implementation. Despite the various impediments, once implemented, GST will simplify the tax system, eliminate cascading effect, reduce time consuming compliances, enhance tax revenue and improve competitiveness in the market. For purposeful implementation of GST all stakeholders viz. the central and state governments, trade & industry, service providers, professionals, consumers etc. has to be taken into considerations. More awareness about GST and its advantages have to be made.

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