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ISSUES AND CHALLENGES OF GST IN INDIA

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Abstract
This paper is outcome of explorative research which is based on secondary data to understand the concept of GST to be implemented in India. GST is one of the most crucial tax reforms in India which has been pending for a long period of time. It was supposed to be implemented in April 2010, but due to political issue and other problems still it is not implemented. Basic objective of the study is to understand and compare GST with the present Indirect tax system, problem associated with the implementation of GST and its mode of operation.

Introduction
India has worlds one of the biggest democratic countries to follow the federal tax system for the levy and collection of various taxes. Different types of indirect taxes are levied and collected at different point in the supply chain. The centre and the states are empowered to levy respective taxes as per the Constitution of India in this way the proposed GST is likely to change the whole scenario of present indirect tax system. After passing the constitution's 122nd amendment bill 2014 for Goods and Service tax (GST) in the Lok Sabha on 6th May 2015 the prospects of replacement of all the indirect taxes levied on goods and services by the centre and state government. GST would be a compressive indirect tax on manufacture, sale and consumption of goods and services through India, to replace the various indirect tax levied by both central and state government. France was first country I the world to introduce GST system in 1954. Almost 160 countries across the world have already implemented the GST.

Literature Review
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.

Girish Garg (2014), Studied "Basic Concepts and Features of Good and Service Tax in India", and found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and Boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

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)7 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.

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.

Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simplier 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.

Keeping this significance of GST in view, an announcement was made by the then Union Finance Minister in the Union Budget, as mentioned before, to the effect that GST would be introduced from April 1, 2010, and that the Empowered Committee of State Finance Ministers would work with the Central Government to prepare a road map for introduction of the GST. After this announcement, the Empowered Committee, as stated earlier, had set up a Joint Working Group which

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submitted a report on a model and road map for GST. After accommodating the views of the States appropriately on this report, the views of the Empowered Committee on the model and road map were sent to the Government of India on 30th April, 2008. The comments of the Government of India were received on 12th December, 2008. These comments were duly considered by the Empowered Committee in its meeting held on 16th December, 2008 and it was decided that a Committee of Principal Secretaries/Secretaries (Finance/Taxation) and Commissioners of Trade Taxes should consider the comments received from the Government of India and submit its views and also work out the Central GST and State GST rates. The Committee held detailed deliberations on 5th and 6th January, 2009, and submitted its recommendations to the Empowered Committee. The Empowered Committee considered these recommendations in its meeting held on 21st January, 2009 and accepted them in principle. The Empowered Committee also decided to constitute a Working Group consisting of Principal Secretaries/Secretaries (Finance/Taxation) and Commissioners of Trade Taxes of all States / UTs to give their recommendations on (a) the commodities and services that should be kept in the exempted list, (b) the rules and principles of taxing the transactions of services including the transactions in inter-State services, and (c) finalization of the model suggested for inter-state transaction/movement of goods including stock transfers in consultation with the State Bank of India and some other nationalized banks. It was also decided that the senior representatives from the Government of India may also be associated. The Working Group deliberated on the issues on 10th February, 2009 and decided to form three Sub Working Groups to deliberate each item in depth. The Reports of the Working Group on the three issues have already been received, and the Empowered Committee has taken a view on these recommendations for concluding the details of GST structure.

The unique structure of India's Constitution comprising the Union Government at the Centre and the State Governments in the different Indian states has created a complicated and multi-layered system of consumption taxes. Under the Constitution, Central Government is empowered to impose excise duties on the production or manufacture of goods and service taxes on the provision of services. The Central Government can also authorize and regulate imposition of taxes on interstate sales of goods. However such taxes may be levied or collected by the states.

Objectives of the Study

- To understand the concept of GST.
- To understand the challenges for the introduction of GST in India.
- To study the mode of operation in GST regime.
- To understand impact of GST in Indian Economy.
- To furnish information for further research in GST.

Scope of the Study

The scope of the study is extended only for implementation of GST levy and collection and its impact on revenue of the government both at central and state government.

Research Methodology

This research is in the nature of exploratory and the data collection is done through secondary data sources from official website of finance ministry of India, the books published on GST and various new articles and journals.

GST Models World Wide

There are three well known GST model in the world

- GST at union government level only (central GST).
- GST at state government level only (state GST).
- GST at both, union and state government level (concurrent GST).

GST Taxation Structure

Under the proposed concurrent dual GST model for India the following taxes shall be levied on the supply of goods and services.
CGST- Central Goods and Service Tax
SGST- State Goods and Service Tax
IGST- Integrated Goods and Service Tax (CGST+ SGST)

Taxes to be Subsumed under GST Structure

After implementation of GST the following Central and State indirect tax would be subsumed in GST.

Table: 1 List of Indirect Tax Subsumed Due to Migration to GST Regime

Central Tax to be Subsumed in GST	State Tax to be Subsumed in GST
• Central excise duty • Additional excise duty • Excise duty levied under the medicinal and toilet preparation • Service tax • Additional custom duty (countervailing duty) • Special additional duty of custom 4%(SAD) • Central surcharges and cesses, National Calamity Contingent duty etc.	• State VAT or sales tax • Entertainment tax • Luxury tax • Taxes on lottery, betting and gambling • Tax on advertisement • Octroi and entry tax • Purchase fare • State cesses and surcharges

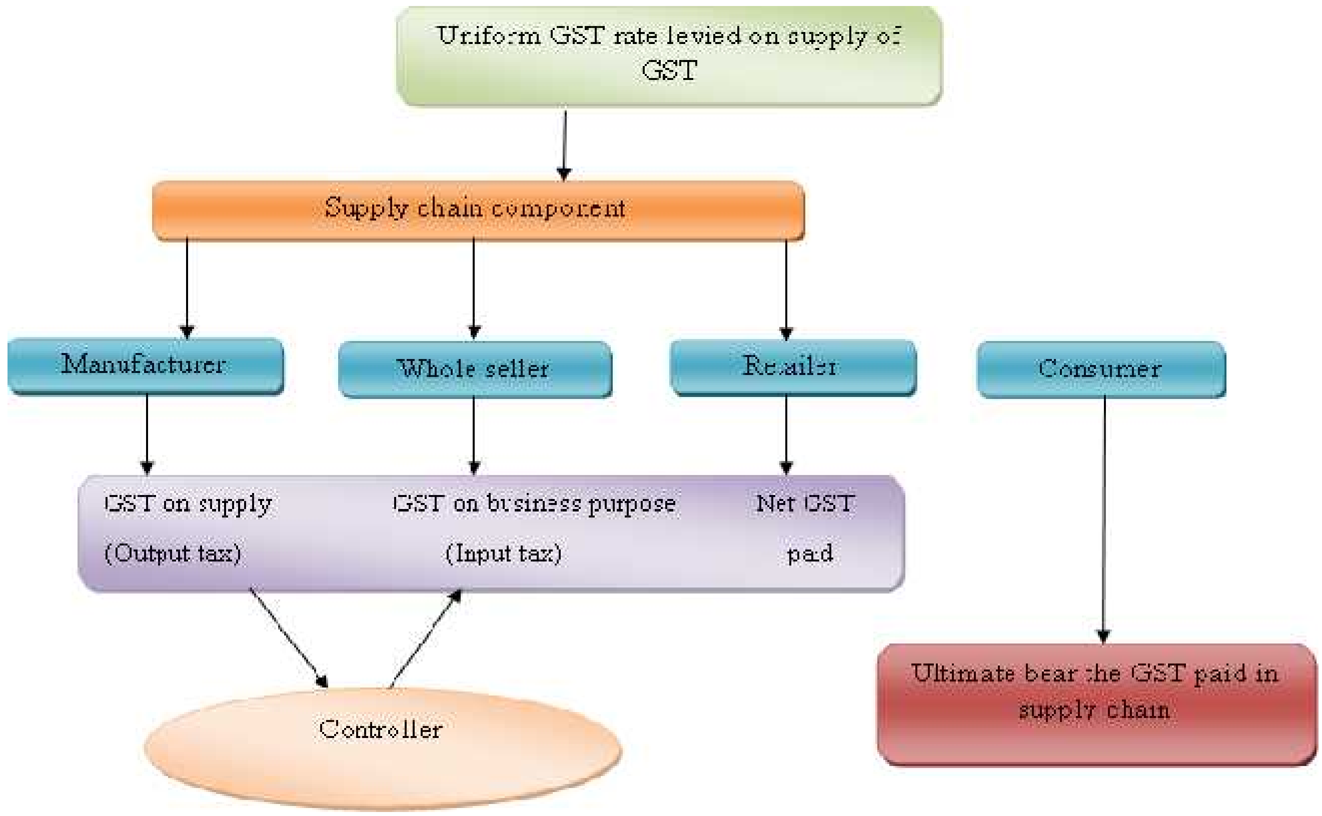
Table: 2 Proposed Indirect Tax Structure in India

Taxable structure within state	**Taxable structure outside state**
↓	↓
Excise and service tax will be replaced by CGST	CST will be replaced by IGST
↓	↓
Local tax and other sales taxes will be replaced by SGST	IGST is the total of CGST and SGST

Table: 3 Distributor's Preference to Sell with Invoice under GST Regime

Particulars	Present Scenario of Transaction		Scenario after GST	
	With Invoice	Without Invoice	With Invoice	Without Invoice
Manufacturer to Distributors:				
Sale price of Good	20000	22000	20000	22000
Add: Excise Duty @ 12%	2400	NIL	NIL	NIL
VAT @ 4%	896	NIL	NIL	NIL
GST @ 16% *	NIL	NIL	3200	NIL
Final Payment	**23296**	**22000**	**23200**	**22000**
Distributors to Whole-Seller:				
Sale price of Good	25000	25500	25000	25500
VAT @ 4%	1000	NIL	NIL	NIL
GST @ 16% *	NIL	NIL	4000	NIL
Final Payment	**26000**	**25500**	**29000**	**25500**
Net tax paid by the Distributor	104(=1000-896)	NIL	800 (=4000 – 3200)	NIL
Net Profit to Distributor:				
Sale Price	26000	25500	29000	25500
Less: Purchase Cost	23296	22000	23200	22000
Less: Net Tax Paid	104	NIL	800	NIL
Net Profit	**2600**	**3500**	**5000**	**3500**
Net Impact on the Psyche of Distributor	He will Prefer without Invoice as it leads to Rs. 900 (= 3500 – 2600) more profit		He will prefer with Invoice as that would lead to increase in profit by Rs. 1500 (5000 – 3500)	

Table: 4. The Process of Tax Collection and Input Tax Credit (ITC) under GST



Let us understand the operation of GST through a hypothetical example. Suppose that there is a chain of manufacturer, wholesaler, dealer and the retailer and GST rate is 20%. Suppose the manufacturer purchases the inputs worth Rs. 1000 for producing a good worth Rs. 1400. He will pay net GST of Rs. 80 by taking the tax credit of Rs. 200 paid on the inputs. Similarly the wholesaler who buys this good and sells it for Rs. 1500 will pay net GST of Rs. 20 and the retailer who sells it for Rs. 1700 will pay net GST of Rs. 40 by taking the tax credit for his purchase which comes to be Rs. 300. The consumer will have to pay Rs. 1740 and the total tax would be Rs. 340 (=200+80+20+40).

In this context, it is to be mentioned that model GST is different from the current tax structure in many ways. Currently, taxes treat goods and services differently. Goods attract Excise at manufacturing level and VAT at the time of sale. In contrast, services attract only one levy i.e. Services tax on provision of taxable services. This distinction, in GST regime, would disappear as both goods and services would be treated at par for taxing purposes. A transaction in goods and services for a consideration would attract Central GST (CGST) and State GST (SGST). Also, the State Government now gets the power to tax services and Central Government gets the power to levy tax at the distribution and retail level.

Challenges of GST

Like any other reform measures, the introduction of GST faces some challenges. These are:

1. Lack of Political Consensus

The first and foremost challenge is the lack of political consensus. It is primarily because of the lack of political will that the bill has not been enacted even after 8 years of its announcement. While the Government was able to pass the Constitution Amendment Bill relating to GST in the Lok Sabha (Lower house of the Parliament), the Bill is expected to face roadblock in the Rajya Sabha (Upper house of the parliament) where the opposition parties are in majority. With the washing out of the both Monsoon and Winter Session because of the logjam in the Parliament, the introduction of GST from April 1, 2016 looks impossible. On the other hand, the major opposition party has put forth the following demands as non negotiable to support the Bill:

- The Standard rate of GST (aggregate CGST and SGST) should be around 18% and not the much talked about 24%-25%
- The proposed 1% non creditable GST on goods in the course of inter-state trade should be abandoned.

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- Tobacco, electricity and petroleum products should be subsumed in GST
- Constitution Amendment Bill should provide for mechanism of Dispute Resolution between States.

Some of these concerns, in the Bill, are real and the Parliament should deliberate on those economic aspects and arrive at a practical consensus. But unfortunately what is happening in the political circles at present is more of politics than Economics.

2. Lack of Infra Structure

The proper implementation of GST demands standardized procedure and efficient information technology infrastructure. Without a well-designed and well-functioning IT system, the full benefit of GST regime cannot be reaped. In this regard, the experience of implementation of VAT can be a guiding point. IT enabled infrastructure both at the central level and state level needs to be developed in harmonic manner which is currently not in place.

3. Non-Creditable Levy on Inter-State Sale

Under the present GST model, 1% non creditable tax on interstate supply of goods would be retained by the Origin State and is ostensibly to compensate the Origin State for the cost of development of infrastructure. While there may be a case for the Origin State to demand additional compensation, the compensation should not be in the form of additional tax. The better option is that Central Government should compensate from its share of the tax pool. In any case, the Central Government has already agreed to compensate revenue loss to the States (100% in first 3 years, 75% in the 4th year and 50% in the 5% year) and the origin States would be compensated. From Business perspective, the 1% levy on interstate supply of goods would be an additional cost and create cascading effect. The 1% levy would be an additional cost on procurement and also on distribution and would have a multiplier effect when the goods move through different States, in the supply chain. Besides, the levy would apply to interstate stock transfer from one unit of an entity to another entity.

4. High Revenue Neutral Rate

The major challenge in implementing GST is to determine the rate of tax. GST rate should be such rate which generates at least the same revenue to the state and Centre as generated in current tax structure, known as Revenue Neutral Rate (RNR). Till now, there has been no official announcement regarding GST rates in India. If the RNR is too high, it would bring opposite results which will defeat the whole purpose of GST. On the other hand, it cannot be too low so that the revenue generated for the centre and states would be lower than existing level of revenue. It has been proposed that GST rate would be 27%. But present Finance Minister said in the Lok Sabha said that 27% will be too high and actual GST Rate would be around 18%. 18% tax will benefit most goods as currently most goods pay tax at a rate of 24%. However, services are to become costlier as they are attracted 18% rate of tax as against 12.5% at present.

5. Sector Specific Issus

GST is a major indirect tax reform and it would virtually affect, both positively and negatively, all the sectors. Each sector such as construction, Information technology, transport and logistics, small and medium enterprises, etc. have their own issues that need to be resolved. It is true that sending the GST bill to Select Committee may have delayed the process; but it is good that all clauses of the Bill would be deliberated and the flaws will be ironed out.

6. International Experience

International experience on GST implementation suggest that dual tax model of GST is not effective enough for the growth and prosperity of overall economy. India is going to adopt dual model for its own compulsion but we should bear in mind its negative aspects and try to develop system responsive to such needs. Secondly, the impact of implementation of GST in New-Zealand, Canada, Australia and Thailand showed that GST did not boost GDP growth but lead to lower inflation and improved tax to GDP ratio (Ambit Capital Research, 2015). Thirdly, the cross country evidence suggests that unified GST will provide more benefit for economy as compared to a dual GST model.

Booster for Economic Growth

Introduction of GST is considered to be a panacea for Indian economy as international experience suggests that GST helps corporations to focus on their core business processes which, in turn, help them to produce goods at competitive prices both for domestic and international market. On the other hand, it will help increase the saving rate and facilitate the economy grow. The Government of India is of the opinion that GST can help enhance the growth by up to 2 %. Even the Task Force under leading economist Kelkar had pointed out that it will increase growth. However, there are certain counter-arguments wherein it has been pointed out that if the rate of GST exceeds 20% limit, there would be very minimal impact on the economic growth and prosperity.

Conclusion

GST eliminates the cascading effect of taxes on comprehensive input tax credit. The GST has increased the growth of GDP by 1%-2% and also the introduction of GST provides more opportunities to **"make in India"** concept attracting new foreign investment, and also reduce cost of manufacture. To introduce GST there are many challenges in front of ruling party, though it was scheduled to be introduced on 01-04-2016, due to some reasons it was delayed.

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