



ONE NATION ONE TAX MARKET – EFFECTS AND CHALLENGES OF GST IN INDIA

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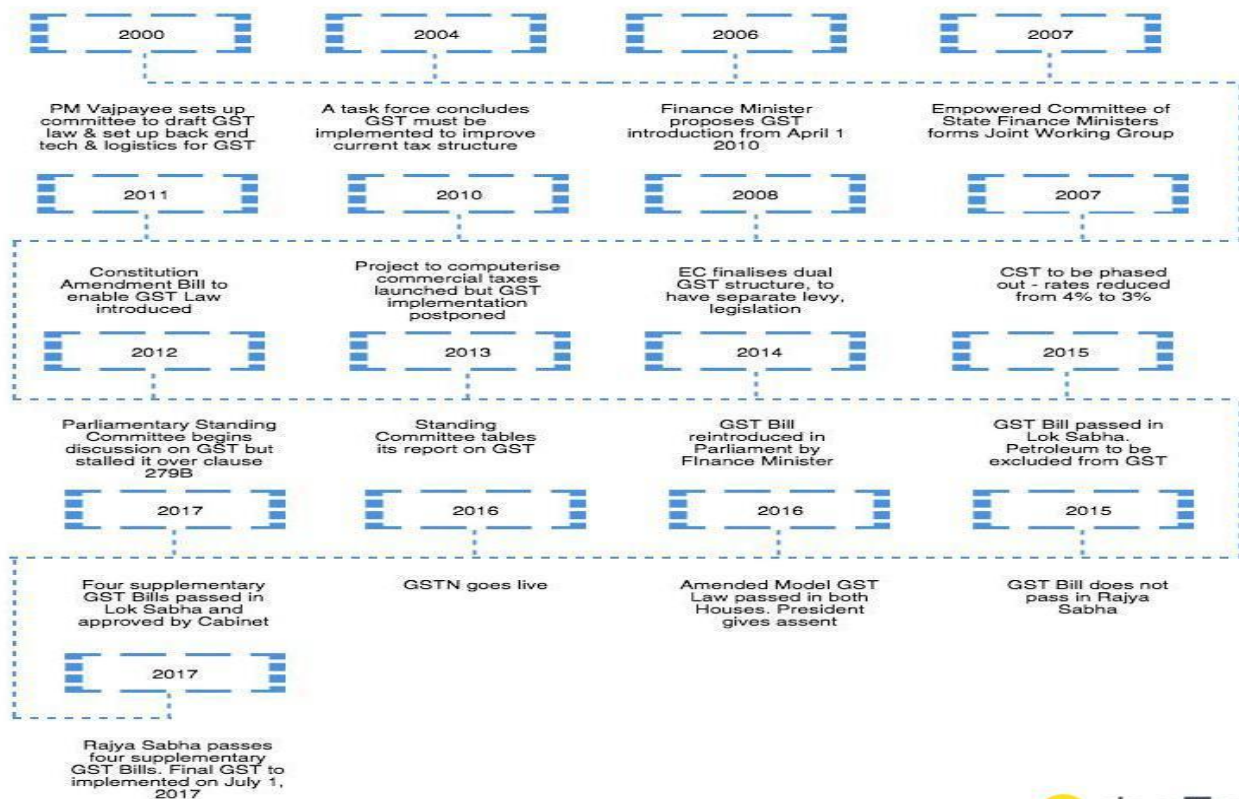
Abstract

Presently, people are facing a complexity and feel the burden by paying various taxes such as direct or indirect. Due to these tax evasion problems are rising. To overcome such issue, Indian government chose to roll out improvements in the indirect tax system by replacing it from Goods and Service Tax i.e. “**One tax One Nation**”. The Goods and Services Tax had become one of the most prominent and the hottest topics in India after its implementation from 1st July 2017. The execution of the Goods and Services Tax (GST) in India was not an overnight idea. The seeds of GST in India were first sown in the year 2000 by Atal Bihari Vajpayee, who was the then Prime Minister of the nation. It is a comprehensive tax system that will subsume all indirect taxes of the State and central Governments. This paper will comprehend the idea of GST and it requires executing in India. The examination likewise concentrates on the challenges and its effects on different areas. The paper will recognize what will be the upsides and downsides of GST on an Indian economy.

Keywords: Goods and Service Tax, Challenges, Effects.

Introduction

In the budget session of the year 2011, the 115th constitutional amendment bill was introduced in the Lok Sabha for levying the GST on all goods and services, other than some specified goods which were to be kept outside the GST boundary for the benefit of the general public. Ultimately, in 2014, the GST bill was passed in Lok Sabha as the 122nd constitution bill. And in 2016, the bill was passed in the Rajya Sabha as well. Goods and Services Tax (GST), India's biggest tax reform, was launched at midnight at the Parliament's historic Central Hall, by President Pranab Mukherjee and Prime Minister Narendra Modi in July 2017. With the stroke of the gong, current tax rates are replaced by GST rates. It is the fourth time since Independence that an event was held there at midnight. In 1954, France was the world's first country to implement the GST Law. Since then, 159 other countries have adopted the GST Law in some form or other. In many countries, VAT is the substitute for GST, but unlike the Indian VAT system, these countries have a single VAT tax which fulfills the same purpose as GST. The brief history of GST as follows:



Source: <https://cleartax.in/s/gst-law-goods-and-services-tax>



The introduction of the tax reform has demanded both time and patience and is expected to significantly affect the Indian economy. GST is one indirect tax for the whole nation, which will make India one unified common market. Goods and Services Tax also known as the Value Added Tax (VAT) or Harmonized Sales Tax.

Meaning of GST

Goods and Services Tax (GST) is an indirect tax applied throughout India, which replaced multiple cascading taxes levied by the central and state governments.

Or

Goods & Services Tax is a comprehensive, multi-stage, destination-based tax that will levied on every value addition. GST 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 the value added 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.

India will adopt a dual GST which will be imposed concurrently by the Centre and States, i.e. Centre and States will simultaneously tax goods and services. Centre will have the power to tax intra-State sales & States will be empowered to tax inter-state sales. Similarly, Integrated GST (IGST) will be levied and administered by Centre on every inter-state supply of goods and services. GST will extend to the whole of India except the State of Jammu and Kashmir.

Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. The following taxes are being included:

Central Level	State Level
1. Central Excise Duty,	1. Subsuming of State Value Added Tax/Sales Tax,
2. Additional Excise Duty	2. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
3. Service Tax	3. Octroi and Entry tax,
4. Additional Customs Duty is commonly known as Countervailing Duty, and	4. Purchase Tax,
5. Special Additional Duty of Customs	5. Luxury tax, and Taxes on lottery, betting and gambling.

Responsibility of Central/State Government in GST Structure

- Central Government to act as a clearing house for accounts settlement across States.
- Handling disputes between states over jurisdictional and enforcement issues.
- Develop and maintain GSTN with best of facilities for uninterrupted flow of credit, less litigation and facility to register, file returns and in future inbuilt other features like a refund, scrutiny of returns.
- Draft model Legislation for CGST, IGST and SGST which will act as a Boundary wall, binding in nature, both on the Centre and States to legislate their respective GST Acts.
- Affix rate of SGST, within the parameters of the band recommended by GST council.
- Formulate mechanism for the reconciliation of tax payments.
- Develop systems for scrutiny of returns and record of assesses for GST.
- Establish dispute resolution mechanism for issues relating to levy of GST.

Objective of the Study

1. To understand the background and concept of GST in India.
2. To study the need of implementing GST in India.
3. To study the effects and challenges in GST faced by the Indian economy.
4. To identify the pros and cons of GST after its implementation.

Need of Goods and Services Tax in India

The existing indirect tax framework in India suffers from various shortcomings as they are not necessarily mutually exclusive. There are various definitional issues related to manufacturing, sale, service, valuation etc. The key requirement of GST implementation is to remove the deficiencies in the existing value added taxation are as follows:



- **For ensuring Competitive Price:** GST will ensure competitive pricing. When the cost of production falls in the domestic market, Indian Goods and services will be more prices competitive in foreign markets. Tax paid by final consumer will come down in most cases. Lower prices will help in boosting consumption, which is beneficial to Companies. GST will ensure boost to exports.
- **Help in Reduction Fiscal Deficit of Economy:** The current state of Indian Economy demands fiscal consolidation & reduction in Fiscal deficit. GST being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions caused by present complex tax structure and will help in the development of a common national market. A recent Report by CRISIL states that GST is the country's best bet to achieve fiscal consolidation. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase & there by the development of the economy.
- **For removing the Cascading and Multiplicity of Taxations:** At present, double taxation of a transaction as both goods and service are compulsory levied on the supply chain till the time of its final consumption. A basis pre-requisite for an introduction of GST meaningfully is that both the Centre & the State should replace existing taxes like Excise, State Sales Tax/ VAT, CST, Entry Tax & all other cascading-type Central/ State levies on goods and services. Central and State taxes into a GST system would make it possible to give full credit for input taxes collected. Any losses on account of abolition of multiple taxes are likely to be balanced by the additional GST revenues that will obtain from taxation of services and from access to GST on imports. This would be the major contribution of GST for the business and commerce to removing cascading effect and multiplicity of taxations.
- **For Boosting the Numbers of Taxpayers and Generate Revenue for States and Union:** GST is a simple tax structure can bring greater compliance, thus increasing number of taxpayers and in turn tax revenues of Government by bring down the tax rates. This will lead to higher amount of revenue to both the states and the union.
- **Reduces Transaction Costs and unnecessary Wastages:** If government works in an efficient mode, it may be also possible that a single registration will be enough for both SGST & CGST for produces effective IT infrastructure by integration of state level with the union. The reduction in the number of taxation will help to reduce the paperwork and clean up the existing disorder that is brought by existing indirect taxation laws.
- **Subsume all Indirect Taxes at the Center and the State Level, i.e. One Point Single Tax:** GST introduces as one point single taxation. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but a function of sheer business intelligence and innovation.
- **Reduces the Corruption:** It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Services.

Effects of Implementing GST on Various Sectors

The proposed change by moving to a 'good and service tax' would have some positive and negative effect on different segments according to some mastery as under:

1. **Effect on Stock Market:** The present rate of expense has gone up and according to dominance this upward update in rate would have a direct to exceedingly impact on their business. However, the assessment on stock exchanges would have a sizable effect just on those organizations which are available in more than one State and are managed in 'goods'.
2. **Effect on IT Sector:** GST will eliminate various duties. It will also permit deeper penetration of digital administration. But with GST, organisations may require each centre to produce a separate receipt to every contracting party. Duty on made products will go up from existing 14-15% to 18%, which implies the cost of hardware from cell to portable PCs would be rise.
3. **Effect on FMGC Sector:** FMCG companies pay about 24-25%, including excise duty, VAT and entry tax. GST at 17-19% bring significant reduction in taxes. But on aerated beverages and tobacco items duty might be levied high, then prices may increase by over 20%.



4. **Effect on Ecommerce Sector:** GST will help make a single unified market across India and permit free movement and supply of producers in all aspects of the nation. But the tax collection at source (TCS) guidelines in the GST regime would increase administration, documentation workload for ecommerce firms and push up costs.
5. **Effect on Telecom Sector:** Handset prices likely to come down/even out across the states. Manufacturers are also likely to pass on to consumer cost benefits they get from consolidating their warehouses and efficiently managing inventory. But Call charges, information rates will go up because of the assessment rate in the GST administration surpasses 15%. Tower firms won't have the capacity to set off their information obligation liabilities if Petro-items keep on staying outside GST structure.
6. **Effect on Automobiles Sector:** On-road price of vehicles could drop by 8%, as per a report by Motilal Oswal Securities. Lower cost can be construed as an indirect stimulus to support volumes. But demand for business vehicles might be hit in the medium term. GST will subsume local taxes, decrease time of registration, and ease logistics obstacles.
7. **Effect on Insurance Sector:** Policies such as life, health and motor will begin to cost more from April 2017 as taxes will go up by up to 300 basis points.
8. **Effect on Airlines:** Flying to become expensive, as service tax will be supplanted by GST. Service tax on fares currently ranges between 6% and 9% (contingent upon the class of travel). With GST, the rate will outperform 15%, if not 18%, effectively multiplying the tax rate.
9. **Effect on Cement Industry:** The effective rate of tax for cement industry is presently 25%. If GST rates are fixed at 18-20%, then the overall tax incidence will be lower. GST is required to prompt investment funds in transportation cost, which at present includes up to 20-25% of aggregate income. One common market will bring down the number of depots in the country.
10. **Others**
 - a) Cigarette cost liable to go up at the GST rate for tobacco will be higher than current obligations
 - b) Commercial vehicles, for example, trucks will become costlier
 - c) Mobile telephone calls may get costlier as service tax will go up
 - d) Textile and market gems may become costlier
 - e) Auto: Prices of entry-level cars, two-wheelers, SUVs may fall
 - f) Car batteries likely to get less expensive
 - g) Paint, cement costs liable to fall
 - h) Movie ticket prices likely to fall as entertainment tax will descend
 - i) Electronics things like fans, lighting, water radiators, air coolers, and so forth will get less expensive

Challenges of Implementing GST in India

Some of the challenges regarding implementation of GST are as below.

- **Clubbing Taxes:** The biggest challenge of GST after its implementation is bringing all the indirect taxes under one roof. There has been opposition asking to include purchase tax by a few states. Other states are reluctant about alcohol, tobacco products coming under the GST.
- **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 of the members of the parliament and that isn't easy given the current political scenario of the country.
- **Makeshift 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.



- **Infrastructure for the Collection Process:** Proper infrastructure has to be designed to track the movement of goods and services between states, collection and monitoring revenue, identify defaulters etc.
- **Determining GST Rates:** This is a major step in ensuring the success of GST. Arriving at rates which are conducive to both the government and public is will be a scary task. The GST slab includes 5%, 12%, 18% and 28%. With a multiple rate system, classification of goods and services still cause temporary confusion among manufacturers, firms, suppliers and consumers. Like in case of electronic filing on the GST portal (GSTN) being the only option, suppliers will face a big challenge.
- **Foresees Challenges in uploading Invoice Level Details at the GSTN:** The challenge would also be around uploading invoice level details at the GSTN of all supplies made to the businesses, larger grocers selling to the smaller ones.
- **Administration-Related Issues:** SMEs will face the maximum confusion over the new tax. There are administrative related issues such as registration formalities for the existing dealers, particularly service providers and some dealers whose supplies are in more than one state.
- **Price-Impact Related Issues:** From a consumption and production viewpoint, the relative price of goods and services is changing and both consumers and producers are in a dilemma. This would impact the demand and GDP growth of the economy in short-run.

Pros of GST

I. For business and trade

- a) Simple tax regime and transparent
- b) Uniformity of tax rates and structures
- c) Removal of double taxation would reduce hidden cost of doing business
- d) Increase in cost competitiveness' for domestic industries with a reduction in tax cost and also reduced cost of compliance
- e) Gain for manufacturers and exporters
- f) More efficient neutralization of taxes, especially for exports
- g) Development of Common National Market or Common Economic Market

II. For Central and State Governments

1. Simple and easy to administer as compared to Multiple indirect taxes
2. Better controls on leakage due to a seamless transfer of input tax credit from one stage to another:
3. Decrease the cost of collection of tax and lead to higher revenue efficiency
4. Boost to 'Make in India' initiative
5. Buoyancy to the Government Revenue

III. For the Consumer

- Single and transparent tax proportionate to the value of goods and services:
- Due to prevention of leakage the tax burden on commodities will come down
- Electronic handling of expense forms, discounts and tax installments through "GSTNET" without human mediation, will decrease corruption and tax avoidance.

IV. For Tax Administrations

- a) Upfront tax payments from suppliers in exporting State.
- b) No refund claims on account of inter-state supplies.
- c) Tax gets transferred to Importing State in accordance with destination principle.
- d) Self monitoring model.
- e) Result in improved compliance levels.
- f) Effective fund settlement mechanism between the Centre and the States.

Cons of GST

GST is not favourable for all sectors. In the present framework, numerous items exempt from tax collection. The GST proposes to have negligible exclusion list. At present, higher duties are imposed on less things, yet with GST, bring down charges will be demanded on all things. Stamp obligation won't fall under the GST administration and will keep on being forced by states. Banking and financial services are becoming expensive in digitalized world. Another issue with the GST that is excluding alcohol and petroleum under GST's field. These are a significant income sources for the government and specialists feel this is being done because of a couple of friend business people who require some an opportunity to pipe away their black money as the GST guarantees to enlarge the assessment paying population. The introduction of the GST increased the costs of some consumer goods and services in India including food, hotel charges, insurance and cinema tickets.



Conclusion

Most likely, GST will simplify existing indirect tax system and will help to remove inefficiencies created by the existing current heterogeneous taxation system as long as there is a clarity over some issues like electricity, inclusion of petroleum products, property, etc. The distinguishing feature of GST is provision of full input tax credit across goods and services, and collection of tax on the value added each and every stage so that full tax is borne by the last consumer. This makes sure that the duty is always a move across and that it never becomes part of the cost. GST will confront many difficulties after its execution and will result to give many advantages by positively affect their profitability The proposed GST structure is probably going to succeed just if the nation has a solid IT system and lucidity among individuals. We find that the GST is relied upon to raise general Indian welfare and is anticipated to be a comprehensive arrangement in that it would be welfare enhancing for all Indian states.. In generally speaking through this study, we presume that GST will play a dynamic role in the development and improvement of our nation.

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