GST in India an Analysis

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Abstract – Traditionally India's tax regime relied heavily on indirect taxes. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. There were endless taxes in earlier system - few levied by Centre and rest levied by state. To remove this multiplicity of taxes and reducing the burden of the tax payer a simple tax was required and that is Goods and Service Tax (GST). The Goods and Services Tax (GST), implemented on July 1, 2017, is regarded as a major taxation reform till date implemented in India since independence in 1947. GST was planned to be implemented in April 2010, but was postponed due to political issues and conflicting interest of stakeholders. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. The paper highlights the background of the taxation system, the GST concept along with significant working, comparison of Indian GST taxation system rates with other world economies, and also presents in-depth coverage regarding advantages to various sectors of the Indian economy after revising GST and outlines some challenges of GST implementation.

Key Words: GST in India, Goods and Service Tax, Models of GST, Indirect Tax.

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INTRODUCTION

Tax policies play an important role in the economy. The main source of revenue for government of India is from tax. Direct and indirect taxes are the two main sources of tax revenue. When the impact and incidence falls on same person it is called direct tax. When the impact and incidence falls on different person that is when burden can be shifted to other person it is called indirect tax. The indirect tax system was earlier mired in multi-layered taxes levied by the Centre and state governments at different stages of the supply chain such as excise duty, central sales tax (CST) and value-added tax (VAT), among others. First Indirect Tax Reform occurred in India when the Modified Value Added Tax (MODVAT) was introduced for selected commodities in 1986 to replace the Central Excise Duty. The other reforms are the introduction of service tax in 1994, decision to introduce VAT in 1999, introduction of Constitution Amendment Bill on GST in 2011. Goods and Services Tax (GST) is most ambitious and biggest tax reform plan, which aims to stitch together a common market by dismantling fiscal barriers between states. It is a single national uniform tax levied across India on all goods and services. In GST, all the indirect taxes have been subsumed under a single regime. The GST taxation laws have put an end to multiple taxes which were levied on different products, starting from the source of manufacturing to reaching the consumer. GST works on the fundamental Principle of "One Country One Tax"

EARLIER INDIRECT TAX STRUCTURE IN INDIA

State Tax

- State vat/Sales tax
- Purchase Tax
- Entertainment Tax (other than those levied by local bodies)
- Entry Tax (at forms)
- Luxury Tax
- Taxes on lottery, winnings gambling.

Central Tax

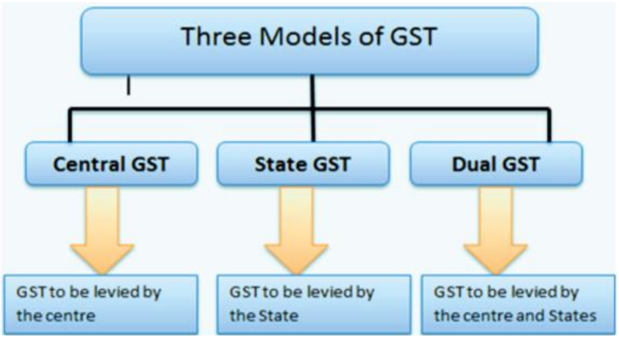
- Central excise duty
- Additional excise duty
- Central sales Tax

- Excise duty levied under medicinal & toiletries preparation Act
- Service Tax
- Surcharges & Cess
- Surcharges & Cess

GST

Constitution amended to provide Concurrent power to both Centre and State government to levy GST

Models of GST



- **For Intra State Transactions:** In case of Intra State transactions, Seller collects both CGST & SGST from the buyer and CGST needs to be deposited with Central Govt. and SGST with State Govt.
- **For Inter State Transactions:** Integrated Goods and Service Tax (IGST) shall be levied on Inter State transactions of goods and services which are based on destination principle. Tax gets transferred to Importing state. Moreover it is proposed to levy an additional tax on supply of goods, not exceeding one percent, in the course of inter-state trade or commerce, to be collected by the Central Government for a period of two years, and assign to the States where the supply originates. Exports and Supplies to SEZ units will be zero rated.

Under this total amount of GST for any goods or service will be distributed in both State and Central exchequers. According to our Union Finance Minister, GST will add 2 percent to the National GDP.

WHY GST?

In earlier regime there were separate laws for separate levy like excise duty, customs duty, central sales tax, value added tax etc. But in case of GST , there is a broad scheme which subsumes all the laws. The tax compliance has become easy as all the laws are subsumed and only one GST law to be implemented. The four GST slabs have been set at 5%, 12%, 18% and 28% for different items or services. The integration of tax laws in GST is expected to reduce the tax burden on the tax payer compared to present system where the tax payer's burden is high. Earlier the tax was at two points i.e., when the product moved out of factory and other at the retail outlet. But GST is levied at final destination of consumption and not at various points. This brings transparency and corruption free tax administration.

Advantages of GST:

1. GST is structured to simplify the indirect system by removing multiple taxes. It creates India as a single market.
2. It taxes goods and services at the same rates so many disputes are eliminated on tax matters.
3. GST is levied only at the final destination of consumption based on VAT principle and not at various points (from manufacturing to retail outlets).This helps in removing economic distortions and brings about development of a common national market.
4. The procedural cost is reduced due to uniform accounting namely, CGST, SGST, IGST have to be maintained for all types of taxes.
5. The reduced tax burden on companies reduces production cost making exporters more competitive at national and international level.
6. More business entities including unorganized have come under the tax system thus widening the tax base. This has led to better and more tax revenue collections.
7. Many businesses used to create depots and godowns in different states simply because there was a difference in tax rates. Now that GST has come, this difference between states has vanished. It has helped to remove the tax differences bias, thereby helping businesses.

Disadvantages of GST:

1. There is dual control on every business by Central and State Government. So compliance cost will go up.
2. All credit is available only from online connectivity with GST Network. Hence,

small businesses may find it difficult to use the system

3. VAT and service tax on some products has become higher than the earlier levels.

4. States have lost autonomy to change their tax rates.

5. Manufacturing states have lost big revenues

6. Service sector opposed GST because now they have to register in every state with central and state government. So every business at all India level now needs to have around 60 registrations while they were having just one earlier. Moreover their rates have also gone up.

7. Retail business opposed because their taxes have gone up and they now also have to deal with Central Government in addition to State governments.

8. GST implementation had teething troubles for some initial time.

OBJECTIVE OF THE STUDY

1. To study the effects of introduction of GST on the public.

2. To study the various issues and challenges post GST

3. To come up with a model to overcome the issues and challenges.

RESEARCH METHODOLOGY

The study focuses on the secondary sources for data collection from various books and websites and journals. The accessible secondary data is used only for the purpose of the study.

GST WILL IMPROVE EASE OF STARTING A BUSINESS IN INDIA:

While starting a new business in India, businesses currently have to get VAT registration from the State's Sales Tax department. Since, each State has different procedures and fees for VAT registration, it is hard for businesses operating in multiple States to obtain and maintain compliance with VAT regulations. With the implementation of GST in India, the procedure for GST registration has been centralized and standardized similar to service tax registration. Under GST regime, business would no longer have to obtain multiple VAT registration– as a single GST registration would be applicable across India. The procedure for obtaining GST registration would also be standardized, thereby improving the ease of starting a new business in India.

INTEGRATION OF MULTIPLE TAXES IN GST:

Earlier goods and products were taxed under the VAT regime implemented by State Government and services were taxed under the service tax regime implemented by the Central Government. As VAT was implemented by State Governments, each of the State had different VAT rates, VAT regulations and VAT procedures – leading to complications. Further, in addition to VAT and Service Tax, there were various other tax regulations that businesses must comply with like Central Sales Tax (CST), Additional Customs Duty, Purchase Tax, Luxury Tax, etc.

GST RETURNS ARE FILED AS FOLLOWS:

1. Common return serves the purpose of both Centre and State Government.

2. Most average tax payers are using only four forms for filing their returns. These are return for supplies, return for purchases, monthly returns and annual return.

3. Small taxpayers: Small taxpayers who have opted composition scheme have to file return on quarterly basis.

4. Filing of returns is completely online.

5. All taxes can also be paid online.

GST COUNCIL

The GST Council consists of: (a) the Union Finance Minister (as Chairman), (b) the Union Minister of State in charge of Revenue or Finance, and (c) the Minister in charge of Finance or Taxation or any other Minister, nominated by each state government. All decisions of the GST Council are made by three fourth majority of the votes cast; the centre has one-third of the votes cast, and the states together have two-third of the votes cast. The GST Council makes recommendations on:

a) Taxes, cesses and surcharges to be subsumed under the GST;

b) Goods and services which may be subject to, or exempt from GST;

c) The threshold limit of turnover for application of GST;

d) Rates of GST

e) Model GST laws, principles of levy, apportionment of GST and principles related to place of Supply;

f) Special provisions with respect to the eight north eastern states, Himachal Pradesh, Jammu and Kashmir, and Uttarakhand; and related matters.

The GST Council also decides the mechanism for resolving disputes out of its Recommendations. Parliament may by law, provide for compensation to states for revenue losses arising out of the implementation of GST, based on the recommendations of the GST Council. Such compensation could be for a maximum of five years.

COMMITTEE FOR GST

A Committee headed by the Chief Economic Adviser Dr. Arvind Subramanian on Possible Tax rates under GST submitted its Report to the Finance Minister. The Committee in its concluding observations stated that this is a historic opportunity for India to implement a game-changing tax reform. Domestically, it will help improve governance, strengthen tax institutions, facilitate "Make in India by Making One India," and impart buoyancy to the tax base. It will also set the global standard for a value-added tax in large federal systems in the years to come.

Following are the highlights of Report:

The GST has been an initiative that has commanded broad consensus across the political spectrum. It has also been a model of cooperative federalism in practice with the Centre and states coming together as partners in embracing growth and employment-enhancing reforms. It is a reform that is long awaited and its implementation will validate expectations of important government actions and effective political will that have, to some extent, already been "priced in."Getting the design of the GST right is, therefore, critical. Specifically, the GST should aim at tax rates that protect revenue, simplify administration, encourage compliance, avoid adding to inflationary pressures, and keep India in the range of countries with reasonable levels of indirect taxes.

ISSUES AND CHALLENGES POST GST

1. **Lack of preparedness among the clients: -** Clients' understanding of GST provisions and its impact on their business is still at a nascent stage, and many are still identifying the locations and places they need to be registered in.

2. **Lack of clarity on the GST provisions: -** Few of the provisions of GST are still ambiguous. Categorization of the goods and services is not very clear.The government has also made the rules related to assessment and audit public, but the absence of actual forms in the public domain challenges the effectiveness of the rule.

3. **Increased compliance, with increase in the number of returns to be filed: -** Businesses will need to file multiple returns, a minimum of 37 and 68 in most cases for assesses, and this can increase multifold in accordance with business models. Clients will need to ensure timely compliance by registered suppliers to ensure there is no loss of input credit. This will necessitate correct data and reports to fill accurate GST returns on time which is an actual challenge.

4. **Preparedness of Information Technology Systems**: - Every business needs to update their software. Many organizations are yet to map the accounting software and IT systems in line with the new tax provisions for creation of the invoices, reports etc .Tax and accounting professionals jointly need to ensure that their clients' current systems are compatible with their GST Service Provider (GSP).

5. **Lack of skilled resources and need for re-skilling:** -The staffs are not completely trained about the recent updates. The staffs who are updated and skilled with the training and knowledge are complex to find. This has placed an additional work load on personnel across industries, and created an urgent need for additional GST-skilled resources to ensure swift implementation

INTERNATIONAL SCENARIO:

In the 1954, France became the first country to adopt the GST. More than 150 countries have introduced GST/National VAT in some form. It has been a part of the tax system in Europe for the past 50 years and is the preferred form of the indirect tax in the Asia-Pacific region. There are different models of GST currently in force, each with its own peculiarities. While country such as Singapore virtually taxes everything at a single rate, some countries have more than one rate (a zero-rate, certain exemptions and higher and lower rates). Brazil and Canada follow a dual system where both Union and State Governments levy GST. In some countries it is recoverable only on goods used in the production process and specified service. GST in China is applicable only to goods and the provision of repairs, replacement and processing services. The standard GST rates in most of the countries ranges between 15-20%.

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