A Sturdy on Probable of Introduction of Goods and Services Tax in India

Tushar Kadian*

L.L.M., University of Delhi

Abstract – GST is the taxation procedure for goods and service transported from one destination to other, it was discussed for years by the government of India to get implemented and now awaiting for its implementation. Taxation and its associated governing laws, in the current scenario, is playing a significant role in the life of business, individual and also for the government for the betterment of policies for the social good. The paper is focused to analyse, around the globe experience of GST and its probable effect in India. The conclusion of the paper lists down the positive and negative effects of the GST from which it could be noted that GST implementation and liberalization of tax policies will create a beneficial impact on industry, individual and economy of India.

Keywords: Goods and Services Tax, Taxation Procedure, Implementation of GST etc.

---------------------------------x--------------------------------

INTRODUCTION TO GST

The Constitution Amendment Bill for Goods and Services Tax (GST) has been approved by the President of India post its passage in the Parliament (Rajya Sabha on 3 August 2016 and Lok Sabha on 8 August 2016) and ratification by more than 50 percent of state legislatures. The Government of India is committed to replace all the indirect taxes levied on goods and services by the Ventre and States and implement GST by April 2017.

With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.

GST will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system.

GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.

THEORITICAL FRAMEWORK

What is GST?

GST is the part of proposed tax reforms in India having a broad base that instigate the applicability of an efficient and harmonized consumption tax system. This system is basically structured to simplify current indirect tax system of India. It integrates the union excise duties, customs duties, service tax and state VAT into a single point levy i.e. GST. It may be rightly termed as a national level VAT on goods and services with one of the differences that it also covers service under its scope.

Basically, goods and service tax is the tax credit mechanism wherein tax is levied on goods and services at each point of sale or provision of service. Under this tax regime the seller of goods or service providers can claim the input credit of tax paid by him (i.e. input GST) for purchasing the goods or producing the services. Thereafter he can utilize the credit of GST to set off against the amount payable on the supply of goods and services (i.e. output GST). Precisely, it can be termed as a consumption tax collected on the value addition-made in the goods and services at each stage of the supply chain.

Further the particularity of the tax structure is that the end consumer, being the last person in the supply chain, has to bear, this tax and so, in many respects, GST also may referred to as a last point retail tax. It is basically a tax on final consumption.

What is VAT?

A value-added tax (VAT) is a type of consumption tax that is placed on a product whenever value is added at a stage of production and at final sale. VAT is most often used in the European Union. The amount of VAT that the user pays is the cost of the product, less any of the costs of materials used in the product that have already been taxed. For example, when a television is built by a company in Europe, the manufacturer is charged VAT on all of the supplies it purchases to produce the television.

Once the television reaches the shelf, the consumer who purchases it must pay the applicable VAT. Value-added taxation is based on a taxpayer's consumption of goods rather than his income. More than 160 countries around the world use value-added taxation. In America, advocates claim that replacing the current income tax system with a federal VAT would increase government revenue, help fund essential social services and reduce the federal deficit. Critics disagree, arguing that a VAT places and increased economic burden on lower-income taxpayers.

RESEARCH OBJECTIVES:

1. To study the experience of GST around the globe.
2. To study the effect of introduction of GST in India.

RESEARCH METHODOLOGY:

This is the descriptive research paper with a secondary data and the data has been gathered by referring different websites, books and research papers.

EXPERIENCE OF GST AROUND GLOBE

As the proponents work towards building a better tax world, the fate of Goods & Services Tax (GST) in India is still hanging on a political seesaw-though the fizz around its implementation has capably sustained for some years now. While India is still to see its share of development around implementation of GST, one should be wary of lessons learnt in countries that have implemented a similar tax regime.

All around the world, GST has the same concept. In some countries, VAT is the substitute for GST, but conceptually it is a destination based tax on consumption of goods and services. But perhaps the most contentious issue that still struggling to rationalize and adopted rate structure.

Similar to Indian context, it is only Canada that has the concept of dual GST. While there was strong rebel at the time of introduction of GST by the then political division in Canada however GST sustained despite the opposition. Even for the subsistence, the government of Canada has been pragmatic and worked towards reducing the GST rate a couple of times post implementation while some others have had to increase the rates very soon after introduction.

Country	Rate of GST/HST/VAT
Canada	Panges form 13% to 15%
France	Standard rate 20% reduced rate 5.5% to 10%
UK	Standard rate 20% reduced rate 5%
Newzealand	Peak rate 15%
Malaysia	6%
Singapure	7%
India	Rate – may range from 12% to 20%

The most contentious issue that steel need to be resolved among the difference government in the world in the GST rate. Aforesaid is highly relevant in the India context where once revenue nature rate was discussed at twenty seven percent and now realistically being talked about the sixteen-eighteen percent it is imperative that a reasonable rate structure is adopted to ensure the success of GST.

Another aspect encountered and expected by the most of the GST countries lies in statistic the GST will be inflationary, especially if the effective tax rate is higher than what prevailed before for instance Singapure saw a spike in inflation in 1994 when it introduce the GST. That makes it all the more impotents for administrator to keep tabs on how price move after imposition of the tax Malaysia to an extent was able to mitigate this risk as price control on account of the GST was administrator by the ministry of domestic trade and consumer affairs.

Another key refers from Malaysia learning is that businesses need to start early with the implementation process to be GST ready. The Malaysia government received strong resentment even after providing 1.5 year from the GST preparedness given the complex GST model perposed in India and the need for a businesses to undergo a transformation to adopt to the GST regime. It would be quit challenging for the Indian government to tackle the ask of requiring businesses to implement GST in less than nine months with 01 April 2017 as the potential go live date.

One constructive learning that did come handy in the GST preparation in Malaysia was the release of sector specific guidelines paper (S) on tax treatment concerning each business sector it aided in addressing the "to be tax practices" associated with a particular business segment, Indian legislative bodies could look in to similar publications to effective the implementation of GST in a smooth way.

As GST is a tax on transactions which the most business organization is voluminous the processes the changes required for GST compliance need to be automated and encapsulated in the IT system it is learnt that may big businesses have either field or struggled to achieve IT transformation for having not planned of started early. It would be a mistake to assume that IT software was GST capability from other countries may be adopted wholesale in India due to peculiarities embedded in the proposed Indian dual GST model.

Additionally the Indian GST regime places the small and medium enterprises on the same footing as large scale industries by keeping the exemption these hold very competitive without any tax differentiation this poses daunting task ahead for SMEs to be ready to invest, read and changes in the same way as any large scale player, without appreciating the limited resources available with them some post implementation truths from the GST in Malaysia includes wide spread unrest and anti GST street protest by small and medium businesses in Cuala Lumpur for few months after implementation even with a similar systematic requirements and much higher level of exemption threshold.

From the lessons learnt, there is no denyin that acceptance of GST by general public, businesses and firms would not be an easy talk, with advance planning and extending adequate time to industry, continued dialogues between businesses and administrators, engaging with industry on the implementation planning, a reasonable tax-rate, timely release of the legislative documents, has proven to aid in smooth GST implementation in many countries. Of course, GST is proven to be an efficient tax collection system despite teething problems in the initial implementation period.

EFFECTS OF GOODS AND SERVICE TAX IN INDIA

We have always heard that 'business drives tax, and not the other way round'. However, in the India context, indirect taxes have driven businesses to re-structure and model their supply chain, systems etc. owing to multiplicity of taxes and costs involved. India is at the cusp of moving to the GST regime, which is being seen as one of the biggest business reform as against tax reform.

India shall adopt a dual GST model which subsumes taxes at the central and state level. There shall be a CGST and SGST (intra-state supply), and IGST (inter-state supply). The major shift from the current tax structure will be the move from an origin based taxation to a destination based consumption tax. Thus resulting in big impact on business, compelling them to make changes to operations.

The distribution model, for example, shall require marked transformation under the new regime. Currently, most industries operate on a state warehouse model undertaking stock transfers to optimize tax costs (since inter – state sales are subject to non – creditable CST of 2%). However, under GST, inter-state sales as well as branch transfers shall be subject to a creditable GST. Therefore, many businesses may consider moving to a single warehouse model to reduce costs and hassles of having multi-state operations. This may potentially increase concentration of business in centrally located areas to facilitate the single warehouse model.

Under the new GST regime, the 'appropriate state' for payment of GST on supply of goods and services shall be governed by 'Place of Supply Rules'. The impact for these rules is likely to be most acute for service providers, wherein the place of supply is based on location of service recipients for B2C supplies (such as mobile operators, banking, travel etc.) Companies currently discharging tax dues on a centralized basis would, under GST, need to have state – wise establishment, registration and undertake compliance.

From a credit perspective, in terms of the current law, VAT credits are state specific and CENVAT credit (excise duty and service tax) is centralished – cross utilization is not possible. Manufacturers take credit with respect to the factory where inputs and capital goods are used. However, services providers can take credit on centralized basis of input services. Under GST, state wise credits would need to be maintained with no cross utilization between CGST and SGST, and amongst CGST/SGST of one state against CGST/SGST liability of another state. Considering the proposed tax rates, GST costs are estimated to be significant for businesses and credit optimize would be important given the legal dynamics. Thus, in some cases, there may be a preference to decentralize procurements (services specifically) to prevent credit accumulation, whereas certain dealers may look at certralisation of procurements. Businesses shall need to accordingly restructure themselves to prevent credit blockages.

Currently, taxable events are varied such as manufacture for excise, sale for VAT/CST, advance' accurual/invoicing for services. The taxable event under GST shall however be the supply of goods/services and shall be determined in accordance with 'Time of Supply Rules for Goods and Services'. This may require corporate to relook at their cash flow cycles due to the significant impact on working capital management.

There are certain trade practices prevalent in the industry structured to minimize tax leakages such as high sea sales, sale in course of import, in – transit sales. The intent behind these transactions is to reduce the non – creditable CST/VAT costs in supply chain. The new GST regime could lead to these transactions being taxable, and likely to be creditable to the buyer. Businesses operating under these mechanisms may need to undergo changes.

The Central Government offers excise duty incentives based on area of operations such s in J&K, Himachal Pradesh, North Eastern States, etc. Similarly, the states Government also provide incentive packages to promote industrial growth. This has led to a concentration of industries in such areas. It shall be pertinent to examine the fate of such benefits under GST and may lead businesses to reconsider their areas of operations.

What lies in the wings is a plethora of change management to manage GST in a better way and not succumb to the various challenges a new legislation could pose. The reach of GST is practically all encompassing – all areas of business operation shall be impacted – supply chain, ERP systems, working capital management, processes, contract management, pricing, human resource management. It is therefore imperative for India Inc. to brace themselves and ready themselves in a focused and structured manner to align their structure and operations with the new GST law.

CONCLUSION:

Positive Aspects

1. The main reason to implement GST is to abolish the cascading effect on tax.

2. The GST is being introduced to create a common market across states, not only to avoid enfeebled effect of indirect tax but also to improve tax compliance.

3. GST will lead a more transparent and neutral manner to raise revenue.

4. Price reduction as credit of input tax is available against output tax.

5. Simplified and cost saving system as procedural cost reduces due to uniform accounting for all types of taxes, Only three accounts; CGST, SGST, IGST have to be maintained.

Negative Aspects :

1. GST is being referred as a single taxation system but in reality it is a dual tax in which state and centre both collects separate tax on a single transaction of sale and service.

2. At present the main Indirect tax system of central Government is central excise. All the goods and commodities are not covered by the central excise and further there is an exemption limit of Rs. 1.50 Crores in the central excise and further traders are not liable to pay central excise. The central excise is payable up to the stage of Manufacturing but now GST is payable up to the stage of sale.

3. Majority of dealers are not covered with the central excise but are only paying VAT in the state. Now all the VAT dealers will be required to pay “Central Goods and service tax”.

REFERENCES:

Research Papers:

1. S. Thowseaf and M. Ayisha Millath (2016). “A study on GST Implementation and its Impact on Indian Industrial Sector and Export” International Journal of management Research and Social Science, Vol. 3, Issue 2, April 2016.

2. Adukia C.R. (2015). A study on proposed Goods and Service Tax Framework in India. http://taxclubindia.com/simple/rajkumar.pdf .

3. Dr. S. Rajamohan and G. Hudson Arul Vethamanikam (2014). “Impact of Foreign Institutional Investors in Commodity Market”, International Journal of Management Research and Social Science, Vol.1, Oct-Dec (2014).

4. Garg G. (2014). Basic Concepts and Features of Goods and Service Tax in India, International journal of Scientific Research and Management.

5. Vasanthagopal D.R. (2011). “GST in India: A Big Leap in the Indirect Taxation System”, International Journal of Trade, Economics and Finance, Vol.2

Corresponding Author

Tushar Kadian*

L.L.M., University of Delhi