

Overview of GST in India

Ramandeep Kaur

Dept. of Business Management Gujranwala Guru Nanak Institute of Mgt & Technology Ludhiana (India)

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Corresponding Author

Email: rk.sheena[at]gmail.com

ABSTRACT

GST is one of the most crucial tax reforms in India which has been long pending. It was supposed to be implemented from April 2010, but due to political issues and conflicting interests of various stakeholders it is still pending. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market. It is expected to iron out wrinkles of existing indirect tax system and play a vital role in growth of India. This paper presents an overview of GST concept, explains its features along with its impact on Indian economy. The paper is more focused on advantages of GST and challenges faced by India in execution.

1. Introduction

The proposed GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 150 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

2. Objective of Study

This paper has following objectives:

1. To understand the concept of GST.
2. To study the features of GST.
3. To evaluate the advantages and challenges of GST
4. To furnish information for further research work on GST.

3. Research Methodology

This research is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have rigorous analysis of research study. The accessible secondary data is intensively used for the study.

4. Concept of GST

GST is an indirect tax which will subsume almost all the indirect taxes of central government and states governments into a unified tax. As the name suggests it will be levied on both goods and services at all the stages of value addition. It has dual model including central goods and service tax (CGST) and states goods and service tax (SGST). CGST will subsume central indirect taxes like central excise duty, central sales tax,

service tax, special additional duty on customs; counter veiling duties whereas indirect taxes of state governments like state vat, purchase tax, luxury tax, octroi, tax on lottery and gambling will be replaced by SGST. Integrated goods and service tax (IGST) also called interstate goods and service tax is also a component of GST. It is not an additional tax but it is a system to examine the interstate transactions of goods and services and to further assure that the tax should be received by the importer state as GST is a destination based tax.

5. Timeline of GST in India

In 2000, an empowered committee was set up by NDA government under the chairmanship of Asim Das Gupta to design GST model. With UPA in power union finance minister, Mr. P.Chidambaram, proclaimed the implementation of GST from April 2010 in budget of 2007 and set up an empowered committee of state finance ministers to work with center. Therefore, on 10 May 2007 Joint Working Group was set up by empowered committee of state finance ministers which submitted the report in Nov 2007. First detailed discussion paper on structure of GST was introduced by empowered committee in Nov 2009 with the objective of generating a debate and getting the inputs from all stakeholders. It suggested a dual GST Module along with a GST council and finally in March 2011, constitution 115th amendment bill was introduced to draw up laws for implementing GST. It includes the followings:

1. Setting up of GST COUNCIL by the president within 60 days of passing of bill. The council will chaired by union finance minister and its members includes ministry of finance for revenue and finance ministers of states. It will work on GST rates, exemption limits etc.
2. Setting up of a GST Dispute Settlement Authority having three members to resolve dispute arising among states and take action against states.
3. GST Amendment Bill was referred to parliamentary committee on finance for evaluation. In Aug 2013 the standing committee submitted the report and recommended that proposed Dispute Settlement Authority should be removed and its mechanism

should be given to GST Council itself. It also recommended that GST Council should take decision by voting rather than consensus. The representation in the GST Council should be 1/3 from central and rest 2/3 from states. The decision in the council should be passed with more than $\frac{3}{4}$ vote representatives present. The quorum of council is raised from proposed 1/3 to half by standing committee. But the proposed 115 amendment bill was lapsed with dissolution of 15th Lok Sabha. On 19 Dec 2014 after making slight changes in GST Bill, NDA government redefined it in 16th Lok Sabha as 122nd amendment of constitution. On 6 May 2015 it passed in lower house of government. Currently, the 122nd constitutional amendment in Rajya Sabha where it has to be passed with 2/3rd majority in order to be implemented from 1 April 2016.

6. Ambit of GST

1. It is applied to all taxable goods and services except the exempted goods and services and on transactions below the threshold limit.
2. Exempted goods and services include alcohol for human consumption, electricity, custom duty, real estate.
3. Petroleum products [crude oil, HSD (high speed diesel), motor spirit (petrol), natural gas, ATF (aviation turbine fuel)] are initially exempted from GST till the GST Council announces date of their inclusion.
4. Tobacco products are included in GST along with central excise tax.

7. Imposition and Collection of GST

1. The power of making law on taxation of goods and services lies with both union and state legislative assemblies. A law made by union on GST will not overrule a state GST law.
2. GST has two components CGST and SGST as discussed above. CGST will be collected by central government whereas states governments will collect SGST.
3. IGST is levied on supplies in the course of interstate trade including imports which is collected by central government exclusively and distributed to imported states as GST is destination based tax. The proportion of distribution between center and states is decided on recommendation of GST Council.

8. GST Council

1. It is set up by president under article 279-A. It is chaired by union finance minister.
2. It will constitute union minister of state in charge of revenue and minister in charge of finance or taxation or of any other field nominated by state governments. The 2/3rd representatives in council are from states and 1/3rd from union.
3. The decision of council is made by 3/4th majority of the votes cast and quorum of council is 50%.

4. It will make recommendations on a) Taxes, surcharge, Cess of central and states which will be integrated in GST. b) Goods and services which may be exempted from GST c) Interstate commerce – IGST- proportion of distribution between state and center d) Registration threshold limit for GST e) GST floor rates f) Special rates during calamities g) Provision with respect to special category states specially north east states
5. It may also work as Dispute Settlement Authority for GST.
6. This tax will be charged for two years or for longer time period recommended by GST Council. COMPENSATION TO STATES 1) for maximum of 5 years union will compensate states for the revenue losses arising out of GST implementation. 2) This compensation will be made on the recommendation of GST Council.

9. Advantages Of GST

Under GST regime the **burden of taxation will be allocated fairly between manufacturing and services** via lower tax rates resulting in increased tax base and minimized exemptions. It is anticipated to help in establishing an effective and transparent tax administration. It is expected to remove the cascading effects of taxes and help in establishing of common national market. Apart from this some more advantages of GST are listed below: IGST- EFFECTIVE LOGISTICS In current indirect tax system central sale tax (CST) is paid on interstate commerce of goods. 2% standard rate of CST is levied and distributed to exporter state as it is origin based tax. The input credit of CST can be offset with CST liabilities only. CST is paid only on interstate commerce of goods and not on supply (transportation) of goods. So, to avoid this tax large corporate build their own godowns in different states and transport their goods among states without paying CST which finally leads to decrease in cost of their product. Because of this tax dodging through warehousing by big corporate growth of small and medium enterprises hampered and they cannot survive in the market. But, in proposed GST tax regime IGST is levied on interstate commerce and supply (both) of goods and services. Due to this an effective logistics system will come up which will prevent the tax dodging through warehousing by big corporate. This will protect small and medium enterprises from unhealthy competition of big corporate. ANCILLARIZATION In present indirect tax regime all big corporate want to produce each and everything in-house only in order to reduce CST and cascading effect of tax. But in proposed GST system there is no CST and cascading effect which will lead to outsourcing, subcontracting and division of labour. Because of this specialization will increase in future which will help in reducing the cost of production. With the reduced prices domestic goods will be more competitive in international market which will result in increased export and help country to reduce current account deficit.

10. Single Base Computation With the introduction of GST cascading effects of taxes will not exist and there will be a single base for computation of tax for both central government and state government. Initially state governments will lose tax revenue due to less taxable value

of goods. But in later years due to availability of cheap goods the number of taxpayers will increase and overall tax collection of states will also boost. This increase in tax revenue will lead to fiscal consolidation which is demanded by current state of Indian economy. As per CRISIL recent report GST is best reckon for fiscal consolidation as there is not much scope to cut government expenditure in India. EXPORT WILL BE ZERO RATE No GST will be levied on exports because of which input credit of exporter will not be affected and he/she can use these input credit in future. With zero rated exports, domestic goods will be more competitive in international market and will help in increasing exports which in turn the fulfillment of objective of 3.5% share of India in world exports by 2020. SIMPLE TAX STRUCTURE As multiple indirect taxes of state and central governments on goods and services will be replaced by a single tax, the tax structure will be hoped much simpler and easier to interpretate. Reduction in the accounting complexities for business will make the manufacturing sector more competitive and boost the economy by 1%-2%.

11. Findings and Suggestions

Among Asian countries, India has the highest standard GST rate. The non-zero rated products (5, 12, 18 and 28 percent) combined with the remaining zero-rated products and the 3 percent GST rated Gold are a sharp deviation from the **one nation one tax dream**. Petroleum products, power, and real estate are still outside the GST ambit. GST is still in its teething period and has entered its second fiscal year on April 1st. In this paper, i try to throw light on the issues that are challenges for implementing GST in India.

Some Pertinent Issues for Small Traders

GST implies additional operational costs for Small businesses. In a developing country like India, not all small traders will be able to afford the cost of computers and accountants required to implement GST (make bills and file tax returns).

28% GST rate on some products like plywood, automobile parts and electronic items forces potential buyers to opt for unregistered dealers.

It is too difficult to assign MRP to handmade products like local shoes, Banarasi Sarees, etc. Most small artisans are illiterate and therefore unable to assign MRP on their items and do any paperwork.

Issues for E-commerce Companies

E-commerce giants like Flipkart, Amazon also have not escaped the aftereffects of GST rollout. TCS has to be collected by the e-commerce companies from the sellers at the time of payment.

The capital blockage will hamper day to day operational cost due to TCS provisions. The GST council has fixed the 1 percent TCS over the deduction made while payment to the sellers.

E-way Bill and Interstate Trade

E-way bill had the potential to liberate interstate trade from all sorts of obstructions. The excitement could be felt among the slightly nervous business community. But on the day when the Finance Budget 2018 was being introduced to the Lower House, the lethargic GST network turned to be a major spoilsport. The inability of the network to handle large volume e-way bill requests was at the forefront of public jokes and disappointment. Immediately e-way bill was rolled back. In the aftermath of the failure, goods carrying vehicles were left stranded and highways enjoyed pin drop silence for a few hours. The crumbling GST network has been in the spotlight from the very beginning and it continues to garner unwanted criticism and public grievances.

The GST Council needs to find permanent scalable. The sloppy GSTN Network raises serious concerns over the Government's claim of a digital powered economy. GSTN is managed by Infosys, a premier IT services company. The e-way bill network was managed by the venerated NIC.

The GST E-way bill is a major concern for most of the companies which are regularly into the business of transporting goods and sending material over the locations, the transport company is also trying to figure out how it would deal with the GST E-way bill provisions

Evaders Bonanza

The consistent policy rollbacks and amendments, powered by the glitchy GSTN Network, have enabled massive tax evasion. The benevolent composition scheme, as well as windows for filing quarterly returns, raises concerns about the intention and execution prowess of the government at the centre. The increased pool of registered taxpayers has had little but no impact on Revenue generation. Only 70% of taxpayers file returns regularly. A major headache is, however, the mismatch between initial and final returns filed by taxpayers. There is an estimated mismatch of Rs 34,000 crore tax liabilities reported in GSTR-1 and GSTR-3B. The discrepancies and e-way bill failure demand that the GST Council now needs to take rigorous measures to tackle the menace of tax evasion through under-invoicing.

GST and Fiscal Fractures

The GST revenue shortfall promises large dents in the Centre and states' fiscal appletart. The Center and State budgets will be pegged down by the gap in Tax revenue. The common man will find himself on the receiving end if such gap in revenue continues. To bring states on the same wavelength and approve GST, the government had offered state compensations to the tune of Rs 60,000 crore for July to March in FY18. In order to stay true to its pre-GST promises, it is estimated the Central Government will have to make payment to the tune of Rs 90,000 crore further in FY19.

Understandably, the Budget 2018 unleashed record taxation of over Rs 90,000 crore in the form of capital gains tax, increase in customs duty, cess and surcharge. The fall in revenue has further made states apprehensive about bringing petroleum products and real estate under the GST ambit.

Adapting to IT Ecosystem is Hard

Indian economy is majorly driven by small business units i.e. SMEs. It will be unfair to expect small-scale business firms to make the transition to an online IT platform and expect no errors in return filing. It is an uphill task for the majority of our working population which has little hands-on experience with IT solutions. The cost of SRP deployment is a major concern for micro-small-medium scale enterprise.

12. Friction and Burdened

For a frictionless and less burdened GST, the government is looking to shore up revenues to the tune of Rs 1 lakh crore per month. It would be interesting to see if the Government still has the courage to take stern measures against tax evaders and other business firms involved in anti-profiteering activities. The financial budget of 2018 has thrown a wide plethora of taxes at the Indians to gobble up. Increased taxation it seems is the only way of generating operational revenues for a complex system like GST in the nonlinear Indian Demographics.

In conclusion, the present GST appears to deliver little on promises. The GST rollout it seems was done with very little homework both at operational and technical ends. For the time being, the GST Council needs to pay heed to grow public as well as taxpayer grievances. It must take note of the fact that policy must be designed to reduce the compliance burden on the taxpayers. Compliance strategies must include compulsory education and assistance programs and risk-based audit programs. It must also run a communications campaign that

enlightens the various effects as well as benefits of GST amidst businesses, consumers and important intermediaries.

13. Conclusion

Due to dissilient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by 1-1.5%. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.

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