

# GST in India: An Indirect Tax Reform

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## ABSTRACT

GST is one of the most crucial tax reforms in India which has been implemented from 1st July 2017. It is a comprehensive tax system since independence of India, which has subsumed all indirect taxes of states and central governments and unified economy into a seamless national market. It has already solved the problem related to the indirect taxes playing a vital role in economic growth process of our country. This paper highlights an overview of GST concept, explains its features along with its timeline of implementation in India.

## 1. Introduction

The proposed GST is changing the whole scenario of current indirect tax system. It is the biggest tax reform since the independence of India. Currently, in India complicated indirect tax system is followed with the arrangement of taxes imposed by union and states separately. GST already unified 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 140 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. Literature Review

Agogo Mawuli (May 2014)<sup>1</sup> 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.

Dr. R. Vasanthagopal (2011)<sup>2</sup> 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)<sup>3</sup> studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler 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.

Nitin Kumar (2014)<sup>6</sup> studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India helps 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)<sup>7</sup> 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.

## 3. Objectives of Study

The study has following objectives:

1. To cognize the concept of GST
- 2) To study the features of GST
- 3) To evaluate the advantages and challenges of GST

## 4. Research Methodology

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

## 5. Concept of GST

It 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

### **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 passage of bill. The council will be chaired by union finance minister and its members includes MOS 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 is crag fasted in Rajya Sabha where it has to passed with 2/3rd majority in order to be implemented from 1 April 2016.

### **6. Features of GST**

GST is one indirect tax for the whole nation, which makes India one unified market.

- GST is a comprehensive value added tax on goods and services

- In a GST regime, goods and services are not differentiated for taxation
- Destination based consumption tax
- Multi-point taxation along the supply chain of goods of services
- Some of the key features of GST are listed as below:

#### **1. Dual Tax Structure**

- Centre and State both levy tax on every transaction related to supply of goods/ services
- Tax levied by Centre and States, called Centre GST ('CGST') and State GST ('SGST')

#### **2. Integrated GST on inter-state supplies**

- Centre have exclusive power to levy IGST on inter-state supplies
- It is called Integrated GST ('IGST')
- Revenues are shared between Centre and Consumption State.

#### **3. Supply without consideration**

- Supply between two distinct establishments of same legal entity taxable even without consideration
- Supply of goods between agent and principal taxable
- 'Gifts' by employer and employee for an amount exceeding INR 50,000 taxable

#### **4. Imports/Exports**

- Imports will be treated as inter - state supplies and would attract IGST, apart from BCD on goods.
- Exports to be zero rated.

#### **5. Exemptions / Concessions**

- Exemption to various goods and services.
- Compliance/ Tax Administration
- Online system for tax compliances
- GST Facilitation centers, GSPs, ASPs to assist tax payers for tax filings registrations etc.

GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer.

### **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 (proposed article 246A) 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 centre and states is decided on recommendation of GST Council (proposed article 269A)

### **GST Council**

- 1) It is set up by president under article 279-A. It is chaired by union finance minister.

- 2) It constitutes 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 makes recommendations on a) Taxes, surcharge, cess of central and states which integrates in GST. b) Goods and services which may be exempted from GST c) Interstate commerce – IGST- proportion of distribution between state and centre d) Registration threshold limit for GST e) GST floor rates f) Special rates during calamities g) Provision with respect to special category states especially north east states
- 5) It also works as Dispute Settlement Authority for GST.

## 7. Advantages and Challenges of GST

### A. 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.

### B. Challenges of GST

- Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking.
- Tax evasion and smuggling will increase.
- Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index.

So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

### Compensation to States:

VAT is highest contributor in tax revenue of state governments. But after GST reform this has subsumed along with surcharge and cess into GST. Due to which state governments will occur revenue loss for sure and they will be

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more dependent on finance commission for tax devolution (currently 42%). To neutralize their revenue losses states are demanding compensation from union government. As per 14 finance commission union has to compensate states for maximum of five years with tapering effects. For first three years 100% compensation, reduced to 75% and 50% in fourth and fifth year respectively. This compensation by union will lead to fiscal burden and may not fulfill the fiscal deficit target of 3% by March 2017 announced by finance minister in 2015 budget. This fiscal target must be achieved for faster economy growth and full capital account convertibility in future.

Industrialized states will be at loss in GST regime due to its destination-based feature. It will demotivate the manufacturing industry and incite states to import more in order to increase their tax revenue. It is not good for manufacturing industry as well as for India because boosted manufacturing sector is the main driver of our economic growth in future. For temporarily relief to industrialized states additional 1% tax for two years on interstate sale and supply of goods is proposed in GST. Bit with 1% additional tax, the main objective of GST to minimize cascading effect of taxes is fading out. So, to minimize cascading effect this additional tax at least should not be levied on supply of interstate goods.

## 8. Conclusion

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 has fulfilled by implementation of GST. Its implementation stands for a coherent tax system which colligates 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 is also used as an effective tool for fiscal policy management. Its execution will also result 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. There are various challenges in way of GST implementation as discussed above in paper.