

Analysis of Goods and Service Tax: benefits and challenges

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ABSTRACT

In India, no impact assessment is carried out before changing tax laws, Indian taxpayers have a litany of woes to relate about the tax system, ranging from arbitrary tax demands and high-handed behaviour, to complex and vaguely worded tax laws.

1. Introduction

The first outline of the Goods and Services Tax (GST) bill was first presented in 2001. It plans to embrace an esteem included assessment (VAT) model, and supplant the present national-level focal extract obligation and state-level deals charge model. Warmed discussions in parliament has prevented the section of the bill, which has been adjusted a few times.

India's present expense framework is unpredictable and multi-layered. Cross-fringe consistence, intensifying of assessments on locally created products and enterprises, notwithstanding a few focal and state charges, worsen the multifaceted nature of the framework. This is the reason the administration has understood the requirement for a productive, straightforward, and basic strategy for circuitous tax collection as the GST bill.

The bill demonstrates that the GST will be an assessment on the last utilization or the real supply of merchandise and enterprises. The fundamental arrangement of the duty is that monetary action at each phase of creation is burdened at a similar rate, anticipating further fracture. The GST will include three primary charges: CGST (Central), SGST (State), and IGST (Inter-State). This article fundamentally assesses the bill. The main area takes a gander at the advantages of the GST, the second segment tends to the downsides of the GST, and the last segment takes a gander at how the GST will influence the scene of the Indian economy.

2. Beneficial features

- The GST subsumes all other roundabout assessments, including focal extract, administration charge, countervailing obligation, exceptional extra obligation, octroi, CST (Central Sales Tax), and VAT (Value included Tax). Subsequently, the GST encourages the production of a solitary assessment detailing structure. The setting up of a widely inclusive expense will at last push India one bit nearer to turning into a bound together market. As of now, states limitlessly contrast in tax assessment consistence, making intra-state and between state exchange bulky. The presentation of the GST will

lessen the monetary bends brought about by between state varieties in duties.

- It will widen the duty base. The idea of Value Added Tax (VAT) was presented for focal extract obligation in 1986. Preceding this, extract obligation was exacted on the two sources of info utilized and the yield delivered. This implied a sum settled as government expense on the info was liable to tax collection again at the yield level (with restricted set offs). This was relevant to each middle of the road great in the assembling procedure. A comparable falling of expenses will occur under the GST routine. Be that as it may, various phases of generation won't be exhausted at various rates. Along these lines, one phase of creation isn't supported over the other, and will additionally avoid defilement in the store network.
- Another level of superfluous multifaceted nature has been expelled by evading the separation between a decent or administration, regardless of whether as an information or as a completed item. Under the GST, charge paid on data sources is deducted from the assessment payable on the yield delivered. The expense is gathered just at the spot of utilization. This plan tends to the falling of charges and underscores on how no products or administration is absolved from the assessment. This component additionally energizes deliberate consistence. An individual in the production network gets credit just when the past individual covers regulatory expense. Presently, merchandise are saddled relatively heavier than administrations, while a few administrations are not burdened by any means. This straightforwardly causes an auxiliary inclination against the assembling business, and makes a few confusions.
- Production costs will be altogether diminished, permitting more space for more prominent efficiency, development, and making trades that are progressively aggressive. It will diminish the bureaucratic bottlenecks by decreasing the connection focuses with a few government offices and will reduce the related desk work. The GST is likewise conjecture to expand charge income for the administration, while at the same time diminishing the taxation rate on the last buyer. Factual assessments

demonstrate that at any rate a 1 to 3 percent expansion in the Gross Domestic Product (GDP) begins from cost-cutting. The GST and related cost reserve funds will help interest in apparatus, assemble process capacity, and increment utilization, all of which will input emphatically into the economy.

3. Literature review

The Goods and Services Tax (GST) is a huge idea that streamlines the mammoth duty structure by supporting and upgrading the monetary development of a nation. GST is a thorough duty demand on assembling, deal and utilization of products and ventures at a national dimension [1]. The Goods and Services Tax Bill or GST Bill, additionally alluded to as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, starts a Value included Tax to be actualized a national dimension in India. GST will be a roundabout duty at all the phases of creation to achieve consistency in the framework.

On bringing GST into training, there would be amalgamation of Central and State charges into a solitary duty installment. It would likewise upgrade the situation of India in both, residential just as worldwide market. At the customer level, GST would diminish the general taxation rate, which is as of now assessed at 25-30%.

Under this framework, the purchaser settles the last regulatory expense however an effective information charge credit framework guarantees that there is no falling of duties charge on assessment paid on data sources that go into assembling of products [2].

Money Street firm Goldman Sachs, in a note 'India: Q and An on GST — Growth Impact Could Be Muted', has put out assessments that demonstrate that the Modi Government's model for the Goods and Services Tax (GST) won't raise development, will push up purchaser costs expansion and may not result in expanded expense income accumulations [3].

There gives off an impression of being sure escape clauses in the proposed GST charge routine which might be inconvenient in conveying the ideal outcomes. They are:

India has embraced double GST rather than national GST. It has made the whole structure of GST genuinely confused in India. The middle should arrange with 29 states and 7 association regions to execute such duty routine. Such routine is probably going to make monetary just as political issues. The states are probably going to lose the state in deciding rates once GST is actualized. The sharing of incomes between the states and the inside is as yet merely dispute with no agreement arrived in regards to income nonpartisan rate.

Boss Economic Advisor Arvind Subramanian on 4 December 2015 proposed GST rates of 12% for concessional products, 17-18% for standard merchandise and 40% for extravagance products which is a lot higher than the present greatest administration charge rate of 14%. Such activity is probably going to push swelling.

The proposed GST structure is probably going to succeed just if the nation has a solid IT organize. India is still in the maturing state the extent that web network is concerned. Also, the proposed routine appears to overlook the developing segment of web based business. Web based business does not leave indications of the exchange outside the web and has secrecy related with it. Subsequently, it turns out to be practically difficult to follow the business exchange occurring through web which can be business to business, business to client or client to client. Once more, there seems, by all accounts, to be no clearness with respect to whether an item ought to be viewed as an administration or an item under the idea of E-business. New systems can be created to track such exchanges yet until such advances become promptly available, age of expense income from this segment would keep on being questionable and much beneath the desire. Again E-trade has been protected against tax assessment under custom obligation ban on electronic transmissions by the WTO Bali Ministerial Conference held in 2014 [4].

Correspondence is viewed as need and one can't manage without correspondence. In current occasions, correspondence has expected the element of media transmission.

The proposed GST regime appears to be unfavourable for telecommunication sector as well

"One of the real downsides of the GST routine could be the immediate spike in the administration charge rate from 14% to 20-22%" (GST: Impact on the Telecommunications Sector in India). The proposed GST gives off an impression of being quiet on whether media transmission can be considered under the class of merchandise or administrations. The whole issue of media transmission part expect a genuine extent when India's provincial tele density isn't even half [5].

The proposed GST regime "would be capable of being levied on sale of newspapers and advertisements therein"

This would give the legislatures the entrance to considerable steady incomes since this industry has truly been tax exempt completely" [6]. It sounds ludicrous yet the arrangement of GST is probably going to make the supervision of activities by its Board/ranking directors over the organization's workplaces in various pieces of the nation an assessable administration by enabling each state to raise a GST request on the organization.

Again there seems, by all accounts, to be absence of accord over fixing the income rate just as edge limit. One thing is without a doubt, benefits in India will be steeply expensive if GST is fixed over the present administration charge rate of 14% which thus will winding up expansion in India. "Asian nations which executed GST all had seen retail swelling in the time of usage [6,7].

4. Analysis of Goods and Service Tax

India's biggest tax reform since independence, rolled out on 1st July, 2017.

The new great and basic GST (Good and Service Tax) introduces a beam of trust in the monetary mainstays of the nation.

About GST bill

- GST will subsume all local and central indirect taxes (except customs duty).
- GST is a consumption based tax/levy. It is based on the "Destination principle."
- GST is applied on goods and services at the place where final/actual consumption happens.
- 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 value addition at each stage.

There are three components of GST:-

1. Central GST (CGST) – it will be Levied by Centre
2. State GST (SGST) – It will be levied by State
3. Integrated GST (IGST) – It will be levied and collected by Central Government on supply of goods and services

- The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services.
- In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services.
- Under current laws only the Centre can impose a tax on services. GST will empower states to collect service taxes

Following are the taxes that will be subsumed under GST

- **Central Level Taxes** – Central Excise Duty, Additional Excise Duty, Service Tax, Countervailing Duty and special Additional Duty of Customs
- **State Level Taxes** – State Value Added Tax or Sales Tax, Entertainment Tax, Octroi and Entry Tax, Purchase tax, Luxury Tax, Taxes on Lottery, Betting and Gambling
- All goods and services have been placed under four slab rates 5, 12, 18 and 28 percent, along with a cess on luxury and demerit goods such as tobacco, pan masala and aerated drinks.
- Most services, except those in the negative list of essential services such as healthcare and education, will come under GST.
- An 'anti-profiteering' clause has been provided in the Centre GST (CGST) and State GST (SGST) laws, to ensure that business passes on the benefit of reduced tax incidence on goods or services to the consumers.

Need for GST

- Before implementation of GST, taxes used to 'cascade', with they levied on several inputs (good or service) that have already been taxed, along with inputs to those inputs.
- Cascading of tax leads to inefficient tax collection and evasion of taxes.

- VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.
- On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a predefined and pre-approved formula.
- In addition, it would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.
- GST will be levied at the place where goods and services are consumed. This can potentially give more revenues to consuming states such as UP, Kerala and West Bengal compared to producing or industrialized states such as Maharashtra, Gujarat or Tamil Nadu.
- A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes.

Implementation GST

The Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders.

The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.

Anti-profiteering features of GST

- Once implemented, GST is expected to **bring down** the prices of goods, however it is also expected that the sellers and manufacturers may not pass on the benefits to the consumers.
- **For tackling that the GST Council**, chaired by Union Finance Minister **Arun Jaitley** and comprising state finance ministers as members, approved the anti-profiteering rules.
- **The anti-profiteering clause (Clause 171)** aims to prevent and effectively counter such practices.
- **Clause 171** has been inserted in the GST bill which makes it **obligatory to pass on the benefit** due to reduction in rate of tax or from input tax credit to the consumer by way of commensurate reduction in prices.
- Provision provides for the constitution of the National Anti-Profiteering Authority.
- The National Anti-Profiteering Authority shall have wide ranging powers which includes the ability to:
 - Issue notices to anybody that it feels warrants a **"fair probing"**, as per the guidelines by the GST Council.
 - Order a reduction in prices of the commodity.
 - Impose a penalty, if deemed necessary
 - Cancel the registration of a company

Benefits of GST

- GST will reduce the complexity of taxes.
- It can facilitate seamless movement of goods across states.
- It will reduce the transaction costs of businesses.
- The procedure of GST registration would also be made simple, thereby improving the ease of starting a business in India.
- There are expectations among experts that with GST, we may see 2% jump in GDP growth.
- GST will plug the leakage of tax. This, in turn, gives more money in the government exchequer.
- The country might see a significant increase in revenue productivity of income tax as the seeding of PAN in GST registration will make it difficult for businessmen to evade the tax.
- Companies which are under unorganized sector will come under the tax regime.
- Number of tax departments will reduce which in turn may lead to less corruption.
- In the long run, the lower tax burden can decrease the prices of goods and services.

Benefits of GST to Agricultural sector

- At an all-India level, Food Corporation of India (FCI) may save anywhere from Rs 6,000-8,000 crore, which could show up in a lesser food subsidy bill.
- The rationalization of mandi taxes and associated cess and levies will be the biggest gain from the GST.
- Implementation of GST may reduce food inflation, as grain and milk would remain exempted under the new regime that would put in place a single levy instead of multiple taxes.

Challenges

- Government is facing the implementation challenge. Even after providing a deadline, interface for GST filling is not yet ready.
- The numbers of returns a business have to file have been increased.
- There is still lack of clarity on which of the slab will apply on which of good.
- The GST puts additional burden on administration, increases the compliance cost and the load-bearing capacity of technology needed for providing input tax credit with multiple rates by matching every invoice.
- The requirement of e-way bills for inter-State movements has also been a cause of concern.

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- India's industry and its banking system will have to change systems, train personnel and accept the extra workload for the new taxation system.
- Industries are still struggling to understand which item will fall into which tax slab.
- According to past experiences from other countries, businesses need to start early with the implementation process to be GST-ready. But it not the case with Indian industry.

Effects on States

- According to the Reserve Bank of India (RBI), even as the fiscal position at the Centre remains stable (Central budget deficit for 2017-18 pegged at 3.2% of gross domestic product), there has been a marked deterioration in the gross fiscal deficit of states.
- The figure for 2016-17 is not finalized yet but could be as high as a deficit of 3.4%.
- Revenue expenditure of the states has risen sharply in recent years with greater financial devolution and increased expenditure.
- In aggregate, the states spend about 30% more than the Centre. This gap will further increase with GST.
- The GST is a destination-based tax, and as such is viewed as being to the advantage of the consuming States and to the detriment of the producing States.
- However the formula for compensating to states for such loss has been devised in GST.

5. Conclusion

- It may be worth reconsidering these rates and bringing them down to the 5 per cent slab for stronger linkages between farmers and the food processing industry and creating jobs in rural areas.
- Since the raw material could be sourced directly from farmers instead of being entirely depending on middlemen in mandis, e-NAM provides this opportunity to graduate to a real pan-India market for agricultural products.
- GST would ensure that farmers in India, who contribute the most to GDP, will be able to sell their produce for the best available price.
- A smooth GST regime can break inter-state barriers on movement and facilitate direct linkages between processors and farmers. This can transform the operations of mandis too if other necessary reforms to free up agricultural markets are undertaken.