CHALLENGES AND OPPORTUNITIES OF GOODS AND SERVICES TAX (GST) IN INDIA

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Abstract

The indirect tax system in India is on the threshold of a complete revival with the introduction of GST, a VAT system which will replace all indirect taxes levied on goods and services by the Union and State governments. Goods and Services Tax (GST) is a broad based and a single comprehensive tax levied at every stage of the production and distribution chain with applicable set-off in respect of the tax remitted at previous stages. At present, around 150 countries have adopted the GST pattern, including India. The GST would be beneficial for the consumers as it reduces the final burden of taxation. For Government it leads to reduction of tax compliance efforts and administrative costs and for business units it leads to transparency, complete set-off and removal of cascading effect of taxation. The present paper tries to explain the challenges and opportunities of Goods and Service Tax (GST) in India.

Key Words: GST, tax system

INTRODUTION

The Indian economy, which has shown stable growth and devel-opment in the past few years, is at the doorstep of a landmark reform in its tax laws. Tax reforms too have kept pace and India has moved from the origin based system of taxation of goods to destination based system, introduced taxation of services and moved to a more robust system based on value added principles. India has been trying to implement the Goods and Service Tax (GST) for last few years but due to political and state government autonomy issues the federal government has been unable to make it a law. In a Federal Country like India it takes time to combine the taxation system which has to be streamlining to a great extent to make it compatible to the tax regime.

GST IN INDIA

The attempt to introduce the GST was reflected, for the first time, in the Union Budget Speech 2006-07. The then Finance Minister Mr. P. Chidambaram remarked that there was a large consensus that the country must move towards a national level GST that must be shared between the center and the states.

Thereafter the Empowered Committee of State Finance Ministers agreed to work with the Central Government to prepare a roadmap for introducing a national level GST. In May 2007 Empowered Committee (EC) of State Finance Ministers in consultation with the Central Government, constituted a Joint Working Group (JWG), to recommend the GST model. In November 2007, JWG presented its report on the GST to the EC. The EC has accepted the report on GST submitted by the JWG. The JWG of EC laid down various recommendations. A brief list of them is produced as under:

1. The committee suggested that GST must have two components a Central tax and a single uniform state tax across the country;
2. A tax over and above GST may be allowed to be levied by the states on tobacco, petroleum and liquor;

3. The states must tax intra-state services while inter-state services must remain with the Centre.
4· Petroleum products, including crude, high-speed diesel and petrol, may remain outside the scope of GST.
5· Central cess like education and oil cess may be kept outside the dual GST structure to be introduced from April 2010;
6. The report has also recommended keeping stamp duty, which is a good source of revenue for states, out of the purview of the GST. Stamp duty is levied on transfer of assets like houses and land;
7· It has also suggested keeping levies like the toll tax, environment tax and road tax outside the GST ambit, as these are user charges; and
8· The draft report has recommended that if the levies are in the nature of user chargers and royalty for use of minerals, and then they must be kept out of the purview of the proposed tax.

In addition to the above mentioned recommendations, one of the major recommendations given by **Kelkar Task Force** (KTF) was the implementation of a single union GST. The Kelkar report can be termed as a **'guiding bible'** to enforce GST in India. The Kelkar committee has elaborately discussed the GST after considering the pros and cons of GST. It is suggested that since the ultimate goal of indirect tax reform is to have a single goods and service s tax (GST), an immediate need is arise to draw a final roadmap of GST.

CONCEPT OF GST

GST stands for Goods and Services Tax. More than 150 countries in the world have already implemented GST system. Goods and Service Tax is a tax on goods and services, which is leviable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/ services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs. Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level.GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set-of benefits from the producer's/ service provider's point up to the retailer's level where only the final consumer should bear the tax.

This system is basically structured to simplify current indirect tax system in India. It integrates the union excise duties, customs duties, service tax and state VAT into a single point levy i.e. GST.

Taxes to be included in GST

Union government Duties and Taxes:

a. Central Excise Duty
b. Additional Excise Duty
c. The Excise Duty levied under Medicinal and toiletries preparation Act

d. Service Tax
e. Additional Custom Duty (CVD)
f. Special Additional Duty
g. Surcharge

State Governments Duties and Taxes:

a. VAT/ Sales Tax
b. Entertainment Tax (unless it is levied by local bodies)
c. Luxury Tax
d. Tax on lottery
e. State Cess and Surcharge to the extend related to supply of goods and services

CHALLENGES OF GST

1. Threshold Limit

The minimum turnover above which GST would be levied will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks; second it may have on such small and not so developed states which have set low threshold limit under current VAT regime.

2. Place of Supply:

One of the main challenges in introducing GST is in defining the place of supply in respect of certain services and intangible properties. In the existing tax system, place of supply is not a big issue because service is taxed by the Centre and the place of levy does not affect revenue receipts. In GST, however, the place of supply will have to be clearly defined to avoid disputes among states in case of inter-state transactions.

3 .Different nature of taxes to be included

The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. All such taxes are different in nature. Interestingly, there are numerous other states and union taxes that would be still out of GST.

4. The number of enactments of statutes

There will be two types of GST laws, one at a center level called 'Central GST (CGST)' and the other one at the state level - 'State GST (SGST)'. As there seems to have different tax rates for goods and services at the Central Level and at the State Level, and further division based on necessary and other property based on the need, location, geography and resources of each state.

5. Rates of Taxation

It is true that a tax rate should be devised in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

6. Tax Administration and Infrastructure

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies. IT infrastructure will play a huge role in interstate GST.

OPPORTUNITIES OF GST

1. Elimination of Cascading Effects

This will be the major contribution of GST for the business and commerce. At present, there are different state level and center level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

2. Growth of Taxation Revenue

It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point This, will lead to higher amount of revenue to both the states and the union.

3. Reduces Transaction Costs and Unnecessary Wastages

If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of such infrastructure of states level with the union.

4. Eliminates the multiplicity of taxation

One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

5. One Point Single Tax

Another feature that GST must hold is it should be 'one point taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage.

6. Reduces average tax burdens

The GST mechanism reduces the average tax burden on the consumers as the cost of tax that the consumers have to bear will be certain.

CONCLUSION

GST at the state level will be a major improvement in its tax base for future revenue generation. GST will be the collective gains for industry, trade, agriculture, common consumer as well as the federal and state governments. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST. One of the biggest taxation reforms in India — the Goods and Service Tax (GST) — is all set to integrate State economies and boost overall growth. If the challenges of the GST can be overcome, its implementation will definitely increase the efficiency of the indirect tax system in India.

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