GST IN INDIA - CHALLENGES AND OPPORTUNITIES.

Asha A G* **Dr.B Ramesh****

* Assistant Prof. Dept. of Commerce, S S College Kalady

** Research guid, Research centre, S S College Kalady

Abstract

India as worlds one of the biggest democratic countries follows the federal tax system for levy and collection of various taxes. Different types of indirect taxes are levied and collected at different point in the supply chain. The centre and the states are empowered to levy respective taxes as per the Constitution of India. The Value Added Tax (VAT) when introduced was considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level. Now the Goods and Services Tax (GST) will be a further significant breakthrough, the next logical step towards a comprehensive indirect tax reform in the country. The replacement of the Central excise duty of the government of India by Central Value Added Tax (CENVAT) and sales tax system of the State governments by the VAT marked a major mile stone in the reform process of indirect taxes in India. It addressed the cascading effect under the erstwhile system by giving set-off for tax paid on inputs as well as tax paid on previous purchases and resulted in a major simplification of the rate structure and broadening of the tax base. But both the CENVAT and the State VAT have certain incompleteness. Though a number of initiatives by the various machineries at the Centre, the present taxation regime is marked as cumbersome, complicated and unfriendly. It is in this perspective, the Central government has entrusted Dr. Vijay Kelkar, Chairman of 13th Finance Commission to suggest a rational, scientific and modern but unified system of taxation in tune with developed nations form the base behind the introduction of Goods and Service Tax (GST) in India. The purpose and objective of this paper is to explore and understand GST in India and the study focuses mainly on the opportunities and challenges of GST in Indian context.

Key Words: GST , Dual GST , CGST & SGST

Introduction

India as worlds one of the biggest democratic countries follows the federal tax system for levy and collection of various taxes. Different types of indirect taxes are levied and collected at different point in the supply chain. The centre and the states are empowered to levy respective taxes as per the Constitution of India. The Value Added Tax (VAT) when introduced was considered to be a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level. Now the Goods and Services Tax (GST) will be a further significant breakthrough, the next logical step towards a comprehensive indirect tax reform in the country. The replacement of the Central excise duty of the government of India by Central Value Added Tax (CENVAT) and sales tax system of the State governments by the VAT marked a major mile stone in the reform process of indirect taxes in India. It addressed the cascading effect under the erstwhile system by giving set-off for tax paid on inputs as well as tax paid on previous purchases and resulted in a major simplification of the rate structure and broadening of the tax base. But both the CENVAT and the State VAT have certain incompleteness. Though a number of initiatives by the various machineries at the Centre, the present taxation regime is marked as cumbersome, complicated and unfriendly. It is in this perspective, the Central government has entrusted Dr.

Vijay Kelkar, Chairman of 13th Finance Commission to suggest a rational, scientific and modern but unified system of taxation in tune with developed nations form the base behind the introduction of Goods and Service Tax (GST) in India.

Methodology and Objectives

This paper is a theoretical review. The purpose and objective of the paper is to explore and understand GST in India. The study focuses mainly on the opportunities and challenges of GST in Indian context.

Understanding Taxation System in India

India is a federal country and both Centre and States have their own rights to collect taxes. Each State is independent in levying and collecting taxes. The taxation powers are defined clearly in the Indian Constitution. Centre collects all the direct taxes (income tax, corporate taxes etc) along with the Indirect taxes like Service Tax, Excise duty and Customs duty. The States collect indirect taxes like VAT on goods, CST and Local Taxes. These revenues states keep with themselves. Earlier instead of VAT, States had sales taxes on various goods. Now State shave replaced sales taxes with VAT. Each state has adopted its own structure of VAT with different duties and structure. A Finance Commission is appointed to look at the transfer of a certain percentage of the taxes collected by the Centre to the State. The Finance Commission defines the rules and conditions for the transfer of resources.

In an earlier taxation system, people paid taxes at various levels. There was no system of getting rebate on the taxes paid previously while paying the inputs. This is also called as cascading effect. Ideally the taxes should be based on value addition and the producer should pay taxes on whatever value he adds to the product. In the absence of such a system, producers ended up paying much higher taxes. Higher taxes are a barrier for business and discourage business activity. The businesses instead spend time trying to save taxes leading to distortions and a parallel economy. A large number of enterprises prefer to stay out of the taxation system and avoid paying taxes. High taxes also lead to lobbying activities where producers of a certain sector ask the government to lower/waiver taxes for their sector. This also leads to multiple taxation rates for multiple products and further increases inefficiency in the system.

Concept of GST

World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax. 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.

Objectives of GST

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property.

Why GST when we have VAT?

GST is similar to VAT in terms of the value-added approach but:

• **Limitations in Centre VAT system:**

There is CENVAT but several taxes are still out of the ambit like surcharges, additional customs duties etc. In some goods we get input tax and not in others, making the tax filing system complex and cumbersome.

• **Limitations in State VAT system:**

The States also have VAT but again story is the same. Many taxes like luxury taxes, entertainment tax etc, are not included. There is no input tax credit in case of CENVAT paid on certain items.

• **Interstate Sales Tax (CST):**

Though it is an important source of revenue for states it is seen as very burdensome by businesses. The companies make goods in one state but on distribution inside the country, end up paying taxes in each state. They are supplying goods within the country and should just be taxed at one place.

• **Inclusion of Services in VAT system:**

Production of goods is because of both physical production and services. But Services are taxed only by Centre and that too is done selectively. The Services need to be taxed at State level and integrated with the Goods VAT system as shown in the example above.

• **International Standard:**

GST is becoming an international standard and it is important India also has one. There are many factors before international companies while choosing a country for its business and taxation system is one very important factor. With other countries having GST and India not having one, the companies are likely to opt for former ahead of India for locating their businesses. Likewise Indian companies may also prefer to increasingly set their bases in other countries where tax system is more efficient.

Justification of GST

The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance. In the GST, both the cascading effects of CENVAT and service tax are removed with set-off, and a constant chain of set-off from the original producer's point and service provider's point up to the retailer's level is established which reduces the burden of all cascading effects. This is the real meaning of GST; and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. The GST at the State-level is, therefore, justified for-

(a) Additional power of levy of taxation of services for the States

(b) System of comprehensive set-off relief,

PESQUISA
ISSN-2455-0736

(c) Subsuming of several taxes in the GST

(d) Removal of burden of CST.

Dual GST

Dual GST means, the proposed model will have two parts called-

1. CGST – Central goods and service tax for levied by central Govt.
2. SGST – State goods and service tax levied by state Govt.

There would have multiple statute one CGST statute and SGST statute for every state.

Salient features of the GST model

Salient features of the proposed model are as follows:

(i) The GST shall have two components: one levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.

(ii) The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services.

(iii) The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.

(iv) Since the Central GST and State GST are to be treated individually, taxes paid against the Central GST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of Central GST.

(v) Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.

(vi) Ideally, the problem related to credit accumulation on ac-count of refund of GST should be avoided by both the Centre and the States except in the cases such as ex-ports, purchase of capital goods, input tax at higher rate than output tax etc.

(vii) To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.

(viii) The States are also of the view that Composition/Com-pounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.

(ix) The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.

(x) Each taxpayer would be allotted a PAN-linked tax payer identification number with a total of 14/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance.

Benefits of GST

1. GST provide comprehensive and wider coverage of in-put credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. CST will be removed and need not pay. At present there is no input tax credit available for CST.

PESQUISA
ISSN-2455-0736

3. Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
4. Uniformity of tax rates across the states.
5. Ensure better compliance due to aggregate tax rate reduces.
6. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
7. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

Applicability of CGST and SGST

The applicability of taxes is as usual there would be a pre-scribed limit of annual turnover, also some goods and services are exempted under GST. Threshold for annual turnover for goods and services would be 10 lakhs for SGST and thresh-old of CGST for goods may be 1.5 crores and service would have a separate threshold that too will be appropriately high. It is assumed that aggregate total of CGST & SGST would be 20%.

Indirect taxes included under GST:

The following indirect taxes from state and central level are going to integrate with GST..

1. State taxes

1. VAT/Sales tax
2. Entertainment Tax (unless it is levied by local bodies)
3. Luxury tax
4. Taxes on lottery, betting and gambling.
5. State cesses and surcharges in so far as they relate to supply of goods and services.
6. Entry tax not on in lieu of octri.
7. Purchase tax (This is not sure still under discussion)

2. Central Taxes

1. Central Excise Duty.
2. Additional Excise Duty.
3. The Excise Duty levied under the medical and Toiletries Preparation Act.
4. Service Tax.
5. Additional Customs Duty, commonly known as counter-veiling Duty (CVD).
6. Special Additional duty of customs- (SAD).
7. Surcharges.
8. Cesses The above taxes dissolve under GST; instead only CGST & SGST exists.

OPPORTUNITIES

1. **An end to cascading effects.**

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

2. **Growth of Revenue in States and Union.**

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 infra-structure 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. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

6. **Reduces average tax burdens.**

Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

7. **Reduces the corruption.**

It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Service.

CHALLENGES

1. **With respect to Tax Threshold.**

The threshold limit for 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 in-creases 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 set-ting 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. **With respect to nature of taxes.**

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

PESQUISA
ISSN-2455-0736

3. **With respect to number of enactments of statutes.**

There will two types of GST laws, one at a centre 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, and geography and resources of each state.

4. **With respect to 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.

5. **With respect to tax management 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.

Conclusion

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and ser-vice sector shall have to bear impact of GST. All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by 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. GST will create a single, unified Indian market to make the economy stronger. Experts say that GST is likely to improve tax collections and boost India's economic development by breaking tax barriers between States and integrating India through a uniform tax rate. Under GST, the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

Reference:

1. International journal of Applied Research. Volume: 3, issue: 5, May 2013, ISSN- 2249-555X.
2. International journal of Trade, Economics and Finance, volume: 2, no: 2, April 2011.
3. Bagchi, Amaresh and Satya Poddar (2007): "GST for India: Some Basic Questions". Available online at http://www.mayin.org/ajayshah/A/BagchiPoddar2007_gst.pdf
4. Comptroller and Auditor General of India (2010): "Implementation of Value Added Tax in India – Lessons for transition to Goods and Services Tax – A Study Report", Government of India, New Delhi.
5. Kelkar, Vijay (2009): Special Address at ASSOCHAM 3rd National Conference on "GST for Accelerated Economic Growth and Competitiveness", New Delhi.
6. www.stcipd.com
7. www.hindustantimes.com
8. www.pide.org.pk