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Impact and Challenges of Good and Service Tax (GST) in Indian

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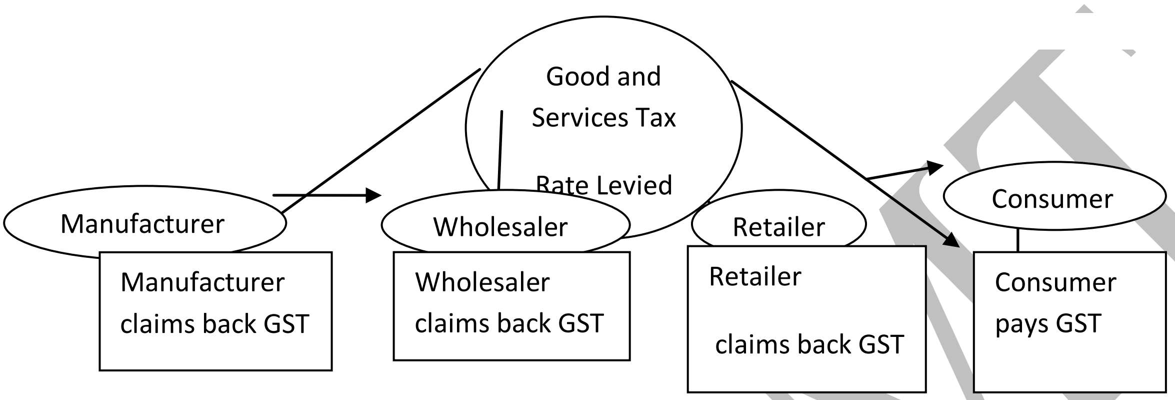
ABSTRACT:
Good and service tax is a tax on goods and services with comprehensive and continuous chain of setoff benefits from the Producer's point and Service provider's point up to the retailer level. The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy. Goods and service tax is a new story of VAT which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. The GST Implementation is not yet declared by government and the drafting of GST law is still under process and a clear picture will be available only after announcement of Implementation. The central idea behind this form of taxation is to replace existing levies like value-added tax, excise duty, service tax, and sales tax by levying a comprehensive tax on the manufacture, sale and consumption of goods and services in the country. GST is expected to unite the country economically as it will remove various forms of taxes that are currently levied at different points.

KEY WORDS: Goods and Service Tax, excise duty, VAT, taxation, economics

INTRODUCTION:
GST was first introduced during 2007-08 budget session. On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill. On 19th of December 2014, the bill was presented on GST in Loksabha. The Bill will be tabled and taken up for discussion during the coming Budget session. The current central government is very determined to implement GST Constitutional Amendment Bill. GST is a tax that we need to pay on supply of goods & services. Any person, who is providing or supplying goods and services is liable to charge GST.
GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.
GST is expected be levied only at the destination point, and not at various points (from manufacturing to retail outlets). It is essentially a tax only on value addition at each stage and a supplier at each stage is permitted to set off through a tax credit mechanism which would eliminate the burden of all cascading effects, including the burden of CENVAT and service tax. Under GST structure, all different stages of production and distribution can be interpreted as a mere tax pass through and the tax essentially sticks on final consumption within the taxing jurisdiction.
Currently, a manufacturer needs to pay tax when a finished product moves out from the factory, and it is again taxed at the retail outlet when sold. The taxes are levied at the multiple stages such as CENVAT, Central sales tax, State Sales Tax, Octroi, etc. will be replaced by GST to be introduced at Central and State level.
Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below. Country India, Australia ,France,

Canada ,Germany, Japan , Singapore, Sweden, New Zealand Rate of GST 27%, 10% ,19.6%, 5%, 19%, 5%, 7%, 25%, 15% 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.

APPLICABILITY AND MECHANISM OF GOOD AND SERVICE TAX:



LITERATURE REVIEW:

Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level. In simple terms, GST may be defined as 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 may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. It is basically a tax on final consumption.

A Big Leap in the Indirect Taxation System", and found that the positive impacts are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the method. Different news articles, Books and Web were used which were enumerated and recorded.

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. 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.

Under the GST regime, both the Centre and the State would have the powers to tax the supply of goods and services right from their primary stage to final consumption. At the centre's level, introduction of the GST will mean that it takes the place of central excise duty, service tax and additional customs duties. At the state level, the GST will take the place of State VAT.

GOODS AND SERVICES TAX IN INDIA:

The introduction of GST in India is not an entirely new initiative, but it is to rectify certain basic implementation shortcomings of VAT. So, this is an attempt to improve the existing VAT system further and also the tax system of India.VAT was introduced in the Indian taxation system from April 1, 2005 in an effort to address the shortcomings associated with the earlier Sales Tax. The States have switched over from a multiple point Sales tax to a Value Added Tax (VAT) covering all transactions of sale of goods within the State The essence of GST is to correct certain shortcomings of VAT like, the way it taxes inputs and outputs, bringing services under tax net, which is not possible under the VAT system. Hence, GST has been modelled as an extension of the current VAT that would make the tax system more comprehensive and smoother in its functioning.

In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in May 2007 to prepare a GST module. In November 19, 2007, Joint Working Group submitted its report to the Empowered committee. The report was discussed in detail in November 28, 2007 in the meeting of the Empowered committee. An important interaction also took place between Shri Pranab Mukherjee, the Union Finance Minister and the Empowered Committee in October 19, 2009, on the related issue of compensation for loss of the States on account of phasing out of GST.

The Empowered Committee has now taken a detailed view on the recommendations of the Working Group of officials and other related matters. This detailed view of the Empowered Committee on the structure of GST is now presented in terms of the First Discussion Paper on November 10, 2009 setting out a target date for its implementation as April 1, 2010. The Union Finance Minister, Mr. Pranab Mukherjee, while delivering the budget speech in 2010, extended the date to April 1, 2011. This deadline was subsequently extended to April 1, 2012. Ex-Finance minister P. Chidambaram in his budget speech of 2013-14 while apologizing for the failure to meet the April 2012 deadline announced further postponement of the same to April 2014.

FEATURES OF THE GOODS AND SERVICES TAX:

a) The GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST.
b) GST will be paid to the accounts of the Centre (Central GST) and the States (State GST) separately, rates for which would be prescribed appropriately, reflecting revenue considerations and acceptability.
c) 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.
d) 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.
e) Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 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
f) The taxpayer would need to submit common format for periodical returns, to both the concerned Central and State GST authorities.
g) The GST will be levied on import of goods and services into the country.

CHALLENGES:

a) **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 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.
b) **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.
c) **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, geography and resources of each state.

d) **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.

e) **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.

OPPORTUNITIES:

a) **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.

b) **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.

c) **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.

d) **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.

e) **One Point Single Tax:** Another feature that GST must hold is it should be 'one point single 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.

f) **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.

g) **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.

INDIRECT TAXES INCLUDED UNDER GST:

The following indirect taxes from state and central level is going to integrated with GST

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)

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 countervailing Duty (CVD)
6. Special Additional duty of custums-(SAD)
7. Surcharges
8. Cessess the above taxes dissolve under GST; instead only CGST & SGST exists.

IMPACT OF GOODS AND SERVICE TAX:

a) **Food Industry:** The application of GST to food items will have a significant impact on those who are living under subsistence level. But at the same time, a complete exemption for food items would drastically shrink the tax base. Food includes grains and cereals, meat, fish and poultry, milk and dairy products, fruits and vegetables, candy and confectionary, snacks, prepared meals for home consumption, restaurant meals and beverages. Even if the food is within the scope of GST, such sales would largely remain exempt due to small business registration threshold. Given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food.

b) **Housing and Construction Industry:** In India, construction and Housing sector need to be included in the GST tax base because construction sector is a significant contributor to the national economy.

c) **FMCG Sector:** Despite of the economic slowdown, India's Fast Moving Consumer Goods (FMCG) has grown consistently during the past three – four years reaching to $25 billion at retail sales in 2008. Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size to $95 Billion by 201835.

d) **Rail Sector:** There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep overall GST rate low. This will have the added benefit of ensuring that all inter – state transportation of goods can be tracked through the proposed Information technology (IT) network.

e) **Financial Services:** In most of the countries GST is not charged on the financial services. Example, In New Zealand most of the services covered except financial services as GST. Under the service tax, India has followed the approach of bringing virtually all financial services within the ambit of tax where consideration for them is in the form of an explicit fee. GST also include financial services on the above grounds only.

f) **Information Technology enabled services:** To be in sync with the best International practices, domestic supply of software should also attract G.S.T. on the basis of mode of transaction. Hence if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service. And if the software is transmitted on media or any other tangible property, then it should be treated as goods and subject to G.S.T. 35 According to a FICCI – Technoprak Report. Implementation of GST will also help in uniform, simplified and single point Taxation and thereby reduced prices.

g) **Impact on Small Enterprises:** There will be three categories of Small Enterprises in the GST regime. Those below threshold need not register for the GST those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime. Those above threshold limit will need to be within framework of GST Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemptions of excise up to Rs. 1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

CONCLUSION:

GST to replace the existing multiple tax structures of Centre and State taxes are not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs.GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is liveable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. History has proved that many countries have benefited from moving to a GST regime. In India, Implementation of GST would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market.

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