



GST- THE BIGGEST TAX REFORM: A CRITICAL ANALYSIS

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ABSTRACT

The Goods and Services Tax or GST is the biggest tax reform in India since 1947. Goods and services tax (GST) has become a reality from July 1, 2017. The basic idea is to support and enhance the economic growth of the country. The Goods and Services Tax (GST) is a value added tax that will replace almost all indirect taxes levied on goods and services by the Government, both Central and States. The GST is all set to consolidate all State economies. This paper analyses the impact of GST (Goods and Services Tax) on Indian Tax Scenario. This paper presents an overview of GST concept, its journey in India, its special features and finally critical analysis of GST.

Key words: Tax, Indirect tax, Goods and Service Tax (GST), Empowered Committee, Government

Introduction

GST will certainly change the architecture of indirect taxation, significantly restructure the power to tax between Union and state governments, and establish for the first time an integrated common market for the whole country. The actual impact and effect of this new tax structure can be evaluated some time after its implementation, the immediate effect will be: cheaper, costlier

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and same priced goods/services.. Experts agree that India's historic GST rollout will have long-term benefits but there are short-term implementation challenges.

Literature Review

Ago Mawuli (May 2014) 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) 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) 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) studied, “Goods and Service Tax- A Way Forward” and concluded that implementation of GST in India help 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) 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.

Research Objectives

- 1) To understand the concept of GST
- 2) To examine the features of GST
- 3) To evaluate the advantages and challenges of GST
- 4) To analyze the impact of GST on economy, business and consumers

Research Methodology

Being an explanatory research it is based on secondary data of National & International Journals, articles, government reports, books, newspapers and magazines covering wide collection of academic literature on GST. Considering the objectives of study, descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. Available secondary data was extensively used for the study.

GST: Journey In India

- In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee. The committee was headed by Asim Dasgupta, (Finance Minister, Government of West Bengal).
- The Kelkar Task Force on implementation of the FRBM Act, 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems and had suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
- A proposal to introduce national level GST by April 1, 2010 was first mooted in the Budget speech for the financial year 2006-07.
- May 2007-Empowered committee of state finance ministers started working on this roadmap.
- Nov 2007-The joint working group, submitted its report to the Empowered Committee on Nov 19, 2007.

- In2010-Finance minister informed that GST will be introduced in April2011.
- March2011-The constitutional 115th amendment bill was introduced in Lokshabha for levy of GST on all goods and services except for specified goods.
- Dec2014- The constitutional 122nd amendment bill was introduced in Lokshabha for levy of GST.
- Aug2016- The constitutional 122nd amendment bill passed by Rajshabha.
- 16th March-2017 GST Council clears State GST and Union Territory GST Laws.

GST: Transformation of Indirect Taxation Landscape

Goods and Services Tax (GST) is one indirect tax for the whole country, making India a single unified common market. As the name suggests it will be levied on both goods and services at all the stages of value addition. In simple words, it is a single tax on the supply of goods and services, right from the manufacturer to the consumer. It can also be said to be a destination-based tax. As per the GST Act, credits of input taxes paid at each stage is available in the subsequent stage of value addition, making GST essentially a tax only on value addition at each stage. The final consumer thus bears only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. The destination based tax follows a multi-stage collection mechanism wherein tax is collected at every stage and the credit of tax paid at the previous stage is available as a set off at the next stage of the transaction. This provision would shift the tax incidence near to the consumer and benefit the industry through better cash flows and better working capital management. Economically too, introducing GST will be a landmark reform. GST is a value-added tax (VAT), where sellers of goods and services can take credit for tax already paid on their purchases. It eliminates “cascading”, or tax on tax, a characteristic of non-VAT taxes. Normally, eliminating the cascading should reduce the effective rate of taxation. The government has opted for four slabs for both goods and services- 5%, 12%, 18% and 28%. In addition, several items face zero levy while luxury and sin goods that are in the top bracket will also attract a cess that will be used to compensate states for revenue loss.

GST is a consumption based tax levied on sale, manufacture and consumption on goods & services at a national level. This tax will be substitute for almost all indirect tax levied by state

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and central government. Exports and direct tax like income tax, corporate tax and capital gain tax will not be affected by GST. GST would apply to all goods other than crude petroleum, motor spirit, diesel, aviation turbine fuel and natural gas and alcohol for human consumption. It would apply to all services barring a few to be specified. With the increase of international trade in services, GST has become a global standard. The proposed tax system will take the form of “dual GST” which is concurrently levied by central and state government. This will comprise of:

- Central GST (CGST) which will be levied by Centre
- State GST (SGST) Which will be levied by State
- Integrated GST (IGST) – which will be levied by Central Government on inter-State supply of goods and services.

Major Benefits and Opportunities

- This taxation system is meant to create a single taxation system in the entire country for all goods and services.
- GST will not be a cost to registered retailers therefore there will be no hidden taxes and the cost of doing business will be lower. This in turn will help Export being more competitive.
- GST can also help to diversification of income sources for Government.
- Under Goods and Services Tax, the tax burden will be divided equally between manufacturing and services. This can be done through lower tax rate by increasing tax base and reducing exemptions.
- The government believes that GST will boost ‘Make in India’ initiative by making goods and services produced in India competitive in the national as well as international market.
- In GST System both Central GST and State GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase.
- Biggest benefit will be that multiple taxes will no longer be present and all that will be brought under the GST. Doing Business now will be easier and more comfortable as various hidden taxation will not be present.

- It will also enable the free flow of goods and services across the country, without artificial tax barriers. The gains in economic efficiency and economies of scale will be enormous.
- Under GST regime, all imported goods will be charged integrated tax (IGST) which is equivalent to Central GST+State GST. Thus the new tax law would bring equality with taxation on local products.

Major Challenges

- A large portion of small and medium enterprises (SMEs) are of the view that the GST is not entirely good for them and their worries might not be totally void. Decrease in duty limits is one of the primary concerns which have led them to be cautious of the Goods and Services Tax bill. Under the past tax regime, no duty was paid by a manufacturer with a gross turnover of less than Rs 1.50 crores. However, after GST implementation, this exemption limit has been considerably lowered to Rs 20 lakhs.
- A large number of SMEs and start-ups would come under the purview of the GST tax.
- The required IT platform, called GST Network (GSTN), the National Securities Depository Ltd has to compile the necessary data base for some eight million traders and service providers in collaboration with the Union and state governments, and issue each entity a GST ID number for retrieval of all relevant data similar to an income tax PAN card.
- Setting up the administrative mechanism for implementing a complex dual GST system, which involves overlapping jurisdictions of Union and state governments, is another challenge.
- Considering the GST rates and related complexity, skilled staff with updated training knowledge is not easily available.
- Businesses will need to file multiple returns. Clients will need to ensure timely compliance by registered suppliers to ensure there is no loss of input credit.
- The Confederation of All India Traders (CAIT), an umbrella body of traders focused on the fact that GST regime is entirely based on e-compliance but “60 per cent of small

businesses in the country, particularly in Tier-II and Tier-III cities, still have not computerized their business formats”.

GST – A Critical Analysis

- The new tax regime will force many companies to restructure their operations. Companies will now insist vendors and suppliers to furnish invoices as GST will make it impossible for firms to evade taxes.
- Since the price of a good or service is dependent on a combination of factors, which include: (i) cost of inputs, (ii) technology used for production, (iii) tax rate, (iv) demand and supply of product, (v) consumer preferences and seasonal variations, (vi) competition in the market, and (vii) distribution channels. Since costs associated with these factors keep fluctuating, it may be difficult to determine if a reduction in tax rates has reflected in a commensurate decrease in price of goods or services.
- The implementation of GST should result in cost savings in the supply chain network and expedite a shift from unorganized to organized trade.
- GST laws include anti-profiteering measures—the benefits of the reduction in the tax rate and input credit shall be passed on by a commensurate reduction in prices—such measures are difficult to implement but GST council will certainly keep a close vigil to ensure it.
- Analysts have no doubt that inflation will remain low as GST rates on essential goods such as food grain, household consumer items and essential services have been either exempt or kept lower.
- According to a research note by Morgan Stanley, GST could lead companies to pass the costs of higher tax compliance on to the consumer at a later stage.

- Economists are not sure of the immediate impact of GST and some even say it may impede growth in the short term as big companies reorganize their businesses and as small firms lose revenue.
- The GST implementation initially may be disruptive as there will be a major change in the supply chain but it is a fact that the tax reform will be beneficial to the economy in the medium to long term.
- Most analysts believe that GST is unlikely to be a “positive” for economic growth in the short term; the reform will improve the ease of doing business, bolster investor sentiment and lure more foreign investment in coming years.
- The rationale behind sharing un-utilised money in the GST Compensation Fund with the Centre and among states being different from Finance Commission formula is unclear [Section 10, GST (Compensation to States) Bill, 2017].
- Most analysts forecast the economy to grow close to 7.4% in 2017-18, the first year of GST rollout, which is slightly higher than 7.1% in 2016-17, but lower than 7.9% of 2015-16.
- According to domestic ratings agency CRISIL “it will take six months for industrial stabilisation after GST is introduced but gains of the biggest indirect tax reform will take up to 3 years to materialize”.
- More than 100 countries have successfully adopted GST, which is considered the best form of indirect taxation but with our federal structure, we will perhaps take more time than other countries for this mega reform to stabilize.

Conclusion

It's a matter of creating the awareness on a continuous basis, working both with the policy makers as well as with the industry associations and the end consumers i.e. considering its far reaching impact ,GST is being called a ‘game changer’. The successful implementation of GST will depend on whether or not incentives, including ease of compliance, are adequately loaded in favour of compliance as opposed to evasion. GST would prove to be a win-win situation for the

entire country, bringing benefits to all the stakeholders of industry, government and the consumer. Experts believe that the GST would reduce the cost of goods and services, boost the economy and make the products and services globally competitive. In this context, restructuring of supply chains and business in general should help to reduce prices further. It is too early to say for sure what the final outcome of the GST regime will be for small and medium businesses. However, the signs are positive and hopefully the benefits from the change in tax laws will offset the drawbacks to create a healthy environment for economic growth. From consumers' perspective, pricing will probably be the most important parameter for evaluating the success of this mega reform. On this front, GST could turn out to be a mixed bag in the short run. The real benefit of GST will be visible in the medium to long term (over the next 12 to 18 months) when the new regime will have stabilized.

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