



GST: The New Taxation System in India

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ABSTRACT

There are various types of taxes prevailing in the country such as income tax, capital gain tax, security transaction tax, perquisites tax, corporate taxes, sales tax, service taxes, value added taxes, custom duty and octroi, excise duty, professional tax, municipal taxes, wealth taxes, entertainment taxes. The new system of taxation system in india GST has replaced all the indirect taxes such as service tax, excise duty except custom duty." GST is the only tax which affects the all sectors and section of our Indian economy. The goods and service tax is aimed at creating a single, unified market that will benefit for both corporate and the economy. Goods and Service Tax is an indirect tax which the Government of India is planning to levy on all goods and services apart from those exempted by the GST law. The GST laws will put an end to multiple taxes which are levied on different products, starting from the source of manufacturing to reaching the end consumer. This GST bill bring the benefits for the Indian economy uniformity in computing tax on goods and services, elimination of double taxation, transparent pricing, double income, aiding GDP growth and discouragement of black money. The present research paper is an attempt to study concept of goods and service tax and its impact on Indian economy.

KEYWORDS : GST, VAT, impact of GST, GST rates, Indian economy, goods and service tax.

INTRODUCTION

Goods and Services Tax" would be a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, to replace taxes levied by the central and state governments. Goods and Services Tax would be levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method allows GST-registered businesses to claim tax credit to the value of GST they paid on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility would generally rest with a single authority to levy tax on goods and services. Exports would be zero-rated and imports would be levied the same taxes as domestic goods and services adhering to the destination principle.

The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25%-30%, free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent.

Goods and Service Tax will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system. GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.

A GST Council consisting of representatives from the Centre as well as State will be formed within 60 days of the enactment of the Bill. The Council will make recommendations to the Union and the States on model Goods & Service tax laws, rates including floor rates with bands of goods & service tax, Place of Supply rules and any other matter relating to GST as the Council may decide. Reports of Joint Committee constituted by Empowered Committee of the State Finance Ministers

on business processes of payment, registration refund and return under GST have been released and put in the public domain for suggestions.

The draft model GST Law was released and put in public domain in June 2016. GST Network, an IT backbone of GST, which will facilitate online registration, tax payment and return filing, will be launched. States will frame their respective GST Legislations to enable them to implement GST. It will be in line with the Central GST Legislation.

The scope to lower fiscal deficit in fiscal 2015 is limited given large roll-over of subsidies from last fiscal and little possibilities of implementation of GST within this year. Beyond that, however, implementation of GST could facilitate a much needed correction in fiscal deficit. In the base case, it is believed that partial GST – one that excludes petroleum goods is most likely. Even with this, fiscal deficit could correct to 3.3% of GDP by fiscal 2017. On the downside, a complete failure to implement GST would result in the fiscal deficit being higher at around 4-4.2% in fiscal 2016-2017.

OBJECTIVE OF GOODS AND SERVICE TAX

The main objectives of Goods & Service Tax (GST) would be to eliminate the cascading effects 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 in market which leads to beneficial impact to the GDP growth of the country. It is felt that 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.

IMPACT

GST will be a welcome change for the economy since it is expected to simplify the indirect tax structure in India. However, it is expected to have far-reaching impact on businesses. While the Constitution Amendment Bill has not yet been passed, at this stage, the businesses should prepare for GST by undertaking GST impact assessment study and have a high-level plan for the GST transition.

A study by the National Council of Applied Economic Research (NCAER) had estimated that roll out of GST would boost the India's GDP growth by 1 percent to 2 percent. Crisil had also reported that GST is the best way to mobilise revenue and reduce the fiscal deficit. GST has

been commonly accepted by more than 140 countries in the world. Looking at the magnitude, GST is going to impact all sections of the society – from small time businessmen to huge conglomerates and from a developing state to a developed state in this country. The implementation of GST will give a boost to the growth engine pursued by the government.

SALIENT FEATURES OF GOODS AND SERVICE TAX

1. GST shall have two components: one levied by the Center (referred as CGST), and the other levied by the States (referred as SGST).
2. CGST and SGST 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 and the transactions which are below the prescribed threshold limits.
3. CGST and SGST are to be treated separately; taxes paid against the SGST shall be allowed to be taken as input tax credit (ITC) for the Central GST and could be utilized only against the payment of CGST.
4. The Center and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
5. The problem related to credit accumulation on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports purchase of capital goods, input tax at higher rate than output tax etc. where, again refund/adjustment should be completed in a time bound manner.
6. 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.
7. 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.

8. Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods and services under the IGST model which is explained later.

REPLACEMENT OF TAXES BY GST

CENTRAL TAXES

Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955]

Service tax

Additional Customs Duty (CVD)

Special Additional Duty of Customs (SAD)

Central Sales Tax (levied by the Centre and collected by the States)

Central surcharges and cesses (relating to supply of goods and services)

STATE TAXES

Value-added tax

Octroi and Entry tax

Purchase tax

Luxury tax

Taxes on lottery, betting and gambling

State cesses and surcharges

Entertainment tax (other than the tax levied by the local bodies)

Central Sales tax (levied by the Centre and collected by states)

GST SLAB RATES

0%- Food Grains

5%- Spices and Mustard oil

12%- Processed Food

18%-Soaps, oil, toothpaste, refrigerator

28%-White Goods, Cars

28%+cess- Luxury cars, pan masala, tobacco, aeriated drinks

CHALLENGES FOR GOODS AND SERVICE TAX

GST is meant to simplify the Indian indirect tax regime by replacing a host of taxes by a single unified tax, thereby subsuming central excise, service tax, VAT, entry tax, etc. However, there is a plethora of challenges before the government for its successful implementation. Some of these are highlighted below:

GST Constitutional Amendment Bill was passed by the Lok Sabha in May 2015. However, the government faced tremendous political set-backs and failed to get it passed in the Rajya Sabha during the monsoon and the winter sessions last year.

Once this is achieved, another Herculean task would be to get the GST Bill passed by the respective state governments in state assemblies. The government would also be required to put the GST bill in the public domain and give sufficient time to all stakeholders to comprehend and give their views on the bill.

A large part of the success of GST depends on two prominent factors – ‘RNR’ and ‘threshold limit’ for GST. RNR, ie the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. Needless to mention, RNR will impact India Inc adversely, if it is unduly higher than the present tax structure. Based on the study conducted by National Institute of Public Finance and Policy (NIPFP), RNR was decided at 27 percent. However, recently the Economic Advisor Panel recommended an RNR of 15 percent to 15.5 percent, ie a lower tax rate of 12 percent and a standard tax rate of 17 percent to 19 percent.

Further, the threshold limit of turnover for dealers under GST is another bone of contention between the government and the Empowered Committee, aiming to broaden the tax base under GST.

Another factor that will impact the success of GST is the robust IT backbone connecting all state governments, trade and industry, banks and other stakeholders on a real-time basis. The government has already incorporated an SPV viz. – Goods and Services Tax Network (GSTN), which has to develop a GST portal – frontend system for trade and industry and back-end system for all government agencies. GSTN will ensure technology support for registration, return filing, tax payment, IGST settlement, MIS and other dashboards on GST portal to all the stakeholders.

GST is quite different from the existing indirect taxation system in the country. For effective implementation of GST, tax administration staff – both at central and state levels – would require to be trained properly in terms of concept, legislation and procedure. The tax administration staff would also need to change their mindset, approach and attitude towards the tax payers. And for this, they would have to ‘learn, unlearn, and relearn’ the GST not only in letter but in spirit too.

As per the Constitutional Amendment Bill placed in the Lok Sabha, it was proposed that states would be allowed to levy an additional 1 percent non-vatable tax on inter-state supply of goods for the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while a few others criticised the same. However, recently the Empowered Committee recommended abolition of the additional tax. There is no clarity on the same yet.

The taxing events of ‘manufacture under central excise’, ‘sale under VAT’ and ‘provision of service under service tax’ will converge into one taxing event of ‘supply’ under GST, ie GST will be levied on the event of supply of goods or services. The ‘Place of Supply Rules’ will thus form an important factor to determine the place of provision of goods or services.

These are some of the major challenges before the government and the industry, ahead of the actual implementation of GST.

BENEFITS OF GOODS AND SERVICE TAX

1.) BENEFITS FOR CENTRAL AND STATE GOVERNMENT

- **Simple and Easy to administer:** - Multiple indirect taxes at the central and the state level are being replaced by GST. Backed with a robust end to end system, gst would be simpler and easier to administer than all other indirect taxes of the center and state levied so far.
- **Better control on leakage:** - GST will result in better compliance due to a robust infrastructure. Due to seamless transfer of input tax credit from one stage to another in the chain of value addition there is an in built mechanism in the design of GST that would incentivize tax compliance by trader.
- **Higher Revenue Efficiency:-** GST is expected to decrease the cost of collection of tax revenues of the government and will therefore lead to higher revenue efficiency.

2.) BENEFITS FOR THE CONSUMER

- **Single and transparent tax proportionate to the value of goods and services:-** Due to multiple indirect taxes being levied by the center and state with incomplete or input tax credit available at progressive stages of value addition, the cost of most goods and services in the country today are laden with many hidden taxes. Under GST there would be only one tax from the manufacturer to the consumer, leading to transparency of taxes paid to the final consumer.
- **Relief in overall tax burden:-** Because of efficiency gain and prevention and leakage, the overall tax burden on commodities will come down, which benefit consumers.

3.) BENEFITS FOR BUSINESS AND INDUSTRY

- **Easy Compliance:-** A robust and comprehensive IT system would be the foundation of the GST regime in India. Therefore all taxpayer services such as registration, returns, payments etc. would be available to the tax payer online, which would make compliance easy and transparent.
- **Uniformity of tax rate and structure:-** GST will ensure that tax rate and structure are common across the country, thereby increasing certainty and ease of doing business. In other words GST would make doing business in the country tax neutral, irrespective of the choice of place of doing business.
- **Removal of cascading:-** A system of seamless tax-credits throughout the value chain, and across the boundaries of states, would ensure that there is minimal cascading of taxes. This would reduce the hidden cost of doing business.
- **Improved competitiveness:-** Reduction in transaction cost of doing business is eventually lead to an improved competitiveness of the trade and industry.
- **Gain to manufacturers and Exporters:-** the subsuming of major central and state taxes in GST, complete and comprehensive set-off input goods and services and phasing out of Central sales tax(CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market.

ADVANTAGES OF GST

1. GST is a transparent Tax and also reduce numbers of indirect taxes. With GST implemented a business premises can show the tax applied in the sales invoice. Customer will know exactly how much tax they are paying on the product they bought or services they consumed.
2. 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.
3. GST can also help to diversification of income sources for Government other than income tax and petroleum tax.
4. 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 increase Tax base and reducing exemptions.
5. 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.
6. Biggest benefit will be that multiple taxes like octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc. 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.

DISADVANTAGES OF GST

1. Critics say that GST would impact negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
2. Some Economist says that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new in this.

CONCLUSION

In the light of the empirical conclusions developed in this paper, it seems appropriate to conclude by briefly noting the policy implications of the results. In the first place, the macroeconomic impact of a change to the introduction of the GST is significant in terms of growth effects, price effects, current account effects and the effect on the budget balance. Secondly, in a highly developed open economy with a high and growing service sector, a change in the tax mix from income to consumption-based taxes is likely to provide a fruitful source of revenue. Thirdly, the aggregate consumer price impact of the introduction of the GST in India on the macro-economy was both limited and temporary. Finally, despite falling outside the limited focus of this short note, we should record that some impact has also occurred in the administrative component of the compliance cost of the GST as well as a likely increase in tax revenue from the “underground” or “black” economy. The task of fiscal consolidation for this government will not be easy. There will be little scope to cut overall expenditure, as it has already been trimmed sharply in the last 2 years. The government must instead focus on switching expenditure from unproductive subsidies towards spending on sector such as health, education and infrastructure. The only way to reduce fiscal deficit, therefore, is to raise revenues as a share of GDP. To do so, the government must implement structural tax reforms such as GST, improve tax compliance and widen tax coverage. GST has created a new scenario in the Indian economy, which reduces double taxation on the goods, consumers will have greater advantage as the tax rate is 0% on food gains, the country will have uniform tax rates there will no double taxation on goods. It is consumption based tax, all the luxury goods become costlier, whereas basic needs becomes cheaper, and eliminates the effect of inflation on consumer goods.

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