



ADVANTAGES AND CHALLENGES OF GST IN INDIA

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Abstracts:

Goods and services Tax or GST as it is known is all to be a game changer for the Indian economy. GST is intended to include all these taxes into one tax with seamless ITC and charged on both goods and services. Thus excise duty, special additional duty, services tax, VAT to name a few will get replaced and will be added into GST. Researcher take objectives for present study to cognize the concept of GST, to study the features of GST and to evaluate the advantages and challenges of GST. Researcher used secondary data for present study. Researcher find out that due to disorient environment of Indian economy, it is demand of time to implement GST. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating.

Key Words: GST, Budget, Developing Countries and Indian Economy

INTRODUCTIONS :

Unless these issues are addressed the Industry would face major hurdles with GST GST is a multistate tax with compliance expected in different states. Thus it is imperative to address the issue of “place of supply” with clarity before GST. Future double taxation issues like taxing intermediary services, interchange income, correspondent bank charges etc. needs to be addressed so that Indian is globally competitive. Issues around compliance need to be clarified since going forward there is an apprehension of multistate competitive for GST. Future the paper has analyzed data collected from research paper start with the existing issues faced by the industry compliance and so on. Thus the research paper starts with the existing issues faced by the industry under services tax laws and based on the available information in the public domain and the issues faced captures the issues which need to be addressed from a financial industry perspective for GST. Future the paper has analyzed data collected through

interview and questionnaire from people in the field. Based on this analysis, the paper goes on to suggest changes or requirements that GST should address from a financial service industry perspective.

Goods and services Tax or GST as it is known is all set to be a game changer for the Indian economy. The Finance Minister in his budget speech of Budget 2016-17 has announced time and again goods and services by central and state government. GST is intended to include all these taxes into one tax with seamless ITC and charged on both goods and services. Thus excise duty, special additional duty, services tax, VAT to name a few will get replaced and will be added into GST. For this, GST will have 3 parts- CGST, SCGST and IGST. The central taxes like excise duty will be subsumed into CGST and state taxes like VAT into SGST. For the introduction of GST in the above form, the government needs to get the Constitution Amendment Bill passed so that the proposed objective of subsuming all taxes and allowing states to tax subjects in Union list and vice versa is achieved. Without these powers it is not legally possible to move towards GST. Thus going forward on all transactions of both goods and services, only one tax will apply which is GST comprising of CGST and SGST. IGST would be applied instead of SGST for interstate transactions. Input credit of all these taxes will be available against all the respective outputs. For successful implementation of GST, it is necessary that the Government at both center and state levels, agree to merge all their taxes into CGST/SGST. Future, the base for taxation for both has to be same. The exemptions, abatements etc. under GST need to be common for both centre and all states to avoid litigation. Future exemptions/exclusions should be minimum to avoid break of credit chain. The law needs to provide for single point compliances, absence of multistate audits etc. for the assesses.

LITERATURE REVIEW

Dr. R. Vasanthgopal (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 SatyaPoddar (2009) studies, “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 Services 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, SupriyaKamma and RichaVerma (July 2014) Studied, “ Goods and services 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.

OBJETIVES OF STUDY

The study has following objectives:

- 1) To cognize the concept of GST
- 2) To study the features of GST
- 3) To evaluate the advantages and challenges of GST

RESRARCH METHODOLOGY

Being an explanatory research it is based on secondary data of journals, articles, newspapers and magazines. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

FEATURES OF PROPOSED GST

RANGE OF GST

- 1) It is applied to all taxable goods and services except the exempted goods and services and on transactions below the threshold limit.
- 2) Exempted goods and services included alcohol for human consumption, electricity, custom duty, real estate. [proposed article 366 (12A)]
- 3) Petroleum products [crude oil, HSD (high speed diesel), motor spirit (Petrol), natural gas, ATF (aviation turbine fuel)] are initially exempted from GST till the GST Council announces date of their inclusion.
- 4) Tabaco products are included in GST along with central excise tax.

IMPOSITION AND COLLECTION OF GST

- 1) The power of making law on taxation of goods and services lies with both union and state legislative assemblies. A law made by union on GST will not overrule a state GST law. (proposed article 246A)
- 2) GST has two components CGST and SGST as discussed above. Central government will collect CGST whereas states governments will collect SGST.
- 3) IGST is levied on supplies in the course of interstate trade including imports, which is collected by central government exclusively and distributed to imported states as GST is destination based tax. The proportion of distribution between center and states is decided on recommendation of GST Council. (proposed article 269 A)

GST COUNCIL

- 1) It is set up by president under article 279-A. It is chaired by union finance minister.
- 2) It will constitute union minister of state in charge of revenue and minister in charge of finance or taxation or any other field nominated by state government. The 2/3rd representatives in council are from states and 1/3rd from union.
- 3) The decision of council is made by 3/4th majority of the votes cast and quorum of council is 50%.
- 4) It will make recommendation on a) Taxes, surcharges, cess of central and states which will be integrated in GST. B) Goods and services which may be exempted from GST c) Interstate commerce- IGST-proportion of distribution between state and center d) Registration threshold limit for GST e) GST floor rates f) Special rates during calamities g) Provision with respect to special category states specially north east states
- 5) It may also work as Dispute Settlement Authority for GST.

COMPENSATION TO STATES

- 1) For maximum of 5 years union will compensate states for the revenue losses arising out of GST implementation.
- 2) This compensation will be made on the recommendation of GST Council.

HIGH REVENUE NEUTRAL RATE (RNR)

RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means , the rate of GST which will give at least the same level of revenue that is currently earned by state and central governments from indirect taxes is known as RNR. As per 13 finance commission the RNR should be 12% whereas state

empowered committee demanding 26.68%. Union government is reckoning the rate band should be 15%-20% which is very high as compare to other counties. Hungary implemented GST from 1/4/2014 with 7% rate. Due to high RNR Competitive edge of India in Asian giants will decrease and domestic industry may be wrecking. Tax evasion and smuggling will increase. Regressive nature of indirect taxes will badly affect the purchasing power of poor people which will have negative impact on human development index. So, before implementing GST, RNR should be minimized. This can be achieved by inclusion of petrol, liquor, land, electricity within the ambit of GST which will enhance the tax base and increase revenue of government.

COMPENSATION TO STATES

Currently, VAT is highest contributor in tax revenue of state government. But after GST reform this will subsumed along with surcharge and Cass into GST. Due to which state government will occur revenue loss for sure and they will be more dependent on finance commission for tax devolution (currently 42%). To neutralize their revenue losses states are demanding compensation from union government. As per 14 finance commission, union has to compensate states for maximum of five years with tapering effects. For first three years 100% compensation reduced to 75% and 50% in fourth and fifth year respectively. This compensation by union will lead to fiscal will dead to fiscal burden and may not fulfill the fiscal deficit target of 3% by March 2017 announced by finance minister in 2015 budget. This fiscal target must be achieved for faster economy growth and full capital account convertibility in future. Industrialized states will be loss in GST regime due to its destination-based feature. It will demotivate the manufacturing industry and incite states to import more in order to increase their tax revenue. It is not good for manufacturing industry as well as for India because boosted manufacturing sector is the main driver of our economic growth in future. For temporarily relief to industrialized states additional 1% tax for two years on interstate sale and supply of goods is proposed in GST. Bit with 1% additional tax, the main objective of GST to minimize cascading effect of taxes is fading out. So, to minimize cascading effect this additional tax at least should not be levied on supply of interstate goods.

REGISTRATION THERESHOLD LIMIT

At present there are different threshold limits for VAT (5lacs), service tax (10 lacs) and excise duty (1.5crore). But for implementation of GST common threshold limit for all indirect taxes is required. It will turn into a conflict between state and center. States want to fix the limit as 10 lacs opposing 25lacs limit suggested by union. The lower threshold limit will broaden the tax base and increase the revenue of government but it will also require a

dandy IT infrastructure, to address the database of increased assess, which is presently missing out in Indian states. It infrastructure will play a vital role in implementing IGST as union will electronically distribute IGST to states. To grapple the date base a strong network is required which is managed by GSTN (Goods and Services Tax Network) proposed in GST. GSTN has major responsibility to tackle challenge of IT infrastructure in a time bound manner.

OTHER ISSUES

- Union government need to coordinate with 30 states for “input credit” due to transfer of credit in SGST.
- State tax officials training and development before implementation of GST.
- Effective credit mechanism is essential for GST. Owing to CENVAT it is not a problem but for states again it is a major challenge.
- Analysts say that real estate market will be cramped by GST and it may result in 12% down turn in demanded of new houses because of increased cost up to 8%. (A study commissioned by Curtin university of technology)

CONCLUSION :Due to disorient environment of Indian economy, it is demand of time to implement GST. Consumption and production of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance, cost is accelerating. Thus, a simplify, user-friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities and flourish GDP by -11.5%. It can also be used as an effective tool for fiscal policy management if implemented successfully due to nation-wide same tax rate. It execution will also results in lower cost of doing business that will make the domestic products more competitive in local and international market. No doubt that GST will give India a world class tax system by grabbing different treatment to manufacturing and service sector. But all this will be subject to its rational design and timely implementation. There are various challenges in way of GST implementation as discussed above in paper. They need more analytical research to resolve the battling interest of various stake holders and accomplish the commitment for a cardinal reform of tax structure in India.

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