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GST rollout, a revolutionary step towards strengthening economy of India

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Abstract

The roll out of GST will be a revolutionary step in seventy years of independence in the field of indirect taxation reform in India. By amalgamating a large number of Central and state taxes into a single entity, it will mitigate the cascading or double taxation effect in a major way and pave the way for a common unified national market." It is expected that, GST will help to improve the productivity in the country as well as will be benefited to the consumers, as maximum rate of GST is predetermined. It will also help to avoid the multiple taxation, processes, tax evasion etc. GST is important for industry to understand the impact and opportunities offered by this particular piece of legislation. GST will affect all industries, irrespective of the sector. It will impact the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing. It will also trigger the need to relook at internal organization IT systems. It is expected to attendant in a harmonized national market of goods and services and shall lead to a simplified, assesse-friendly tax administration system. It will include most of the country's Central and state-level duties and taxes, thus making the country one national market and contribute significantly to the growth of the economy. The GST subsumes India's messy plethora of indirect taxes, duties, surcharges and cesses into a single tax.

This research paper probable pros and cons about upcoming are discussed. The GST Bill has been approved by president of India on 3rd August 2016 in Rajya Sabha and on 8th August 2016 in Lok Sabha with ratification by more than 50 percent of state legislation. It is expected that GST will be implemented from 1st July, 2017.

Key Words: progressive taxation, incidence of the tax, GST, VAT, Revenue Neutral Rate.

Introduction

What is GST?

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with setoff benefits at all the previous stages.

The GST can help in reducing taxation and filing costs and expand business profitability, attract investment and improve tax compliance and increase tax revenue in the country. However, there are some issues about upcoming GST, which are supposed to discuss properly and addressed by concerned authority otherwise it will bring some another issues to address in future.

It is expected to:

- ease a cumbersome tax system
- help goods move seamlessly across state borders
- curb tax evasion
- improve compliance
- raise revenues
- spur growth
- stimulate investment
- make investing and doing business in India easier

Complex reforms

The federal and state governments will jointly administer India's dual GST. This means it will be a set of 38 different taxes:

- a GST for each of the 29 states and seven federally administered union territories
- a federal GST
- an integrated GST on inter-state supplies of goods and services

Clearly, a successful GST in India will be a minor miracle.

Objectives of the Study

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 properties.

Literature Review

GST is also referred as value added tax (VAT). It is a tax government collected at the final purchase consumption. However, according to **Hooper and Smith (1997),** GST is actually collected at various stages of the production process. Accordingly, there is output tax, a GST tax charges by the suppliers on taxable goods and services and input tax, a tax incurred by businesses on goods and services purchases. It is noted that GST is not a cost to the sellers and would not appear in financial statements as expenditure. Recently, the government initiative to introduce Goods and Services

Tax (GST) has been a growing topic of interest in Malaysia. Despite the increasing popularity and success of GST implementation around the world (Hooper & Smith, 1997), Malaysian citizens are not entirely convinced with this new tax scheme. There are debates mainly centred on the advantages and disadvantages derived from the new tax initiative. As per as India is concerned **Agogo Mawuli (May 2014)** studied, "Goods and Service TaxAn 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 simple 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.

Research Methodology

This research work is fully based on secondary data from various sources like reference books, articles from newspapers, research papers, talks in the parliament and various websites.

Challenges

i. 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 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 might have to set low threshold limit under current VAT regime.

ii. 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.

iii. With respect to number of enactments of statutes There will two types of GST laws, one at a center 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.

iv. 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.

v. 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.

Advantages of GST

Upcoming GST will bring following advantages to the country.

i. The GST will help to removing economic distortion and bring about common national market. The dream of one country, one act and one tax rate can be fulfilled.

ii. It will help to make transparent and corruption free tax administration in two ways. First relates to the self- policing incentives inherent to value added tax. To claim input tax credit, each dealer has an incentive to request documentation from the dealer behind him in the value-added/tax chain. Provided the chain is not broken through wide ranging exemptions, especially on intermediate goods, this self-policing feature can work very powerfully in the GST. The second relates to the dual monitoring structure of the GST- one by the States and another by the Centre.

iii. If upcoming GST bill might have well designed and tax rate is more than 'Revenue Neutral Rate' (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) and tax base becomes more buoyant, then, resources available for the governments will be increase which can be used for poverty alleviation and development activities in the country and states.

iv. As production cost will decrease which can support would support to increase export from our country.

v. This tax will facilitate "Make in India" by making one India. The current structure unmakes India, by fragmenting Indian markets along state lines. These distortions are caused by three features of the current system: the Central Sales Tax on inter- State sales of goods; numerous intra- State taxes; and the extensive nature of countervailing duty exemptions that favor's imports over domestic production. In

vi. One fell swoop; the GST would rectify all these distortions: the GST would be eliminated; most of the other taxes would be subsumed into the GST; and because the GST would be applied in imports, the negative protection favoring imports and disfavoring domestic manufacturing would be eliminated.

vii. As taxable sale limit is brought down i.e. only Rs. 10 lakh, it is expected that tax base will be comprehensive in the country. (It was 1.5 crore for excise duty). It will also diversify tax system and put equal burden on goods and services. These are the main advantages of upcoming GST.

Disadvantages of GST

Presently, more than 160 countries of the world have implemented GST. Regarding India, eminent economists are very optimistic about its positive effects on the economy. However, each country where GST was implemented experienced inflation for next 3 to 5 years. Some possible disadvantages of GST are as following:

i. Critics say that GST would affect 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.
ii. 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 for which we should cheer.
iii. As GST brought small traders in the tax net, it will difficult to small traders to compete with strong / big traders. Their survival can become something difficult.
iv. There is need of various expositions (Monthly, annually, total 37 expositions are required as per present situation) are complicated would difficult to the traders and at the same time I. T. infrastructural support with safety and reliability is required.
v. As GST is on purchasing/consumption, its revenue will goes to state in which article sold or service is rendered instead of produced. Means, state from which resources are used to produce goods will not receive tax revenue. For instance, Andrapradesh and Telangana are producing cement that is sold in other states of the country, they will get revenue.
vi. As octroi or Local Body Tax is abolished, its monetary compensation for Urban Local Bodies should be done properly from the concern State Government. But, experience in our country is not satisfactory because even after 73rd and 74th constitutional amendments States are supposed to appoint State Finance Commissions.

Problem Solutions to Minimize, Disadvantages of GST

Even though, GST is one of the revolutionary reforms about indirect taxes in the country after independence there are some possibilities that can effect on the public interest and the common predetermined objectives of the Governments. We should take care of following things:

i. GST should not increase the vertical imbalances of resources and responsibilities among governments, particularly for Urban Local Bodies. Hope, finance commissions will take sufficient care of it.
ii. 2. If GST led to regional imbalance of development, there should be legal provision to correct the same.
iii. Reliable I. T. infrastructure, trained man power and tax payer's attitude should be changed.

iv. The definition of goods and services should be clear otherwise it would lead to conflicts.

Dual GST

Dual GST means, the proposed model will have two part called

i. CGST – Central goods and service tax for levied by central Govt.
ii. 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) 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.
iii) The States are also of the view that Composition/Compounding 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.
iv) 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.
v) Each taxpayer would be allotted a PAN-linked taxpayer 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.
vi) 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.
vii) The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
viii) 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.
ix) 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.
x) Ideally, 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.

Applicability of CGST and SGST

The applicability of taxes is as usual there would be a prescribed limit of annual turnover, also some goods and services are exempted under GST. Threshold for annual turnover for goods and services would be 10 lakh for SGST and threshold of CGST for goods may be 1.5 crore 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%.

Impact of Goods and Services Tax

i) 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.

ii) 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.

iii) 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.

iv) 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.

v) 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.

vi) 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 services. 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 – Techno pack Report. Implementation of GST will also help in uniform, simplified and single point Taxation and thereby reduced prices.

Conclusion

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 service 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. Arun Jaitley said that while India aspires to evolve from a developing country to a developed nation and an economy that is making an impact globally with fastest growth rate, "we are substantially, in terms of taxation, a non-complaint society". So GST will be a revolutionary step in the field of indirect taxation reform in India.

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