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GST AND INFORMAL SECTOR IN INDIA: DIGITIZATION AND INCLUSIVE GROWTH

Smt. Nabanita De
(Govt Approved Part Time Teacher)(2009 onwards)
Department of Economics, Charuchandra College, University of Calcutta, 22 Lake Road, Kolkata-29

Smt. Paramita Chatterjee
(Govt. Approved Contractual Whole Time Teacher)(2006 onwards)
Department of Computer Science, Charuchandra College, *University of Calcutta,* 22 Lake Road, Kolkata-29

Abstract: ***Goods and services tax (GST)*** *is one of the most significant tax reforms since independence; GST has ushered in an era of unified indirect tax regime on 1 July, 2017 for a great step towards transformation and transparency. It is a tax to replace all the other indirect taxes (almost). It aims to integrate the country economically and convert it into a single unified market .It may have a negative impact on the informal sector, as lakhs of small scale entities with more than Rs twenty lakh annual turnovers have to register under GST network (GSTN). It also changes the orientation of the tax base; from an origin-based taxation to a destination-based one .It is a* ***digital platform*** *under which all entities have to register themselves .One driving factor is that the anticipated shift of business from small, unorganized firms in some sectors to organized ones. Since the latter are already in the formal economy, comply with regulations, are generally larger in size and pay taxes, the switch will be much easier for them, which will ultimately translate into increased market share. This paper mainly focuses on how SMEs of informal sector is benefited by this system and how* ***formalisation*** *occurs through the process of GSTN & its software implementation and also analyse Govt. policy and recommendations to* ***start-up*** *businesses which will* ***make India better*** *for inclusive growth of the economy.*

Keywords: *Tax reforms, GSTN, Digital platform, Informal sector, Inclusive growth, start-up*
JEL Classification: E26, H25, L86

1. Introduction:

"We need a new global Tax system"

Joseph Stiglitz

Indian tax system has long been suffering from the vices of multiple taxes, lack of transparency and cascading effect imposed under scores of laws in spite of introduction of VAT at Centre and States level. The Goods and Service Tax (GST) is being considered the panacea to cure all the existing anomalies and complexities in the indirect system in the country and to **make nation as one market.** The long waiting period is over on 8th September 2016 with the assent of the President to the Constitution (101stAmendment) Act 2016("Amendment"). The successful passing of the amendment has paved the ways for introduction of the GST in the country. The amendment provides for the levy of tax on supply of goods and services (i.e. GST) by the Centre and the States by subsuming almost all the important indirect taxes of the States and the domestic indirect taxes of the Centre. India being a federal country, single GST was not practically possible, therefore, the amendment envisaged for dual GST i.e. the Centre and States both will have concurrent power to levy GST on supply of goods and services to be known as Central GST (CGST) and State GST (SGST). Our prime minister said that it will end of harassment of traders and small businesses while integrating India into **one market with one tax rate** [6].The implementation of the Goods and Services Tax (GST) has had a roller coaster ride, starting in 2006. Prime minister described GST is an economic integrator just like the integration of the nation by **Sardar Vallabhai Patel** after independence [5]. India has been trying to implement the GST for last few years but due to political and

state government autonomy issues the federal government has been unable to make it a law **[1].**The GST regime constitutes the comprehensive reforms of indirect taxes in India. It would be the final step or a step in the right direction, depending on how the country chooses to define the constituents of this regime [2].India is set to see a major overhaul in the trade structure in favour of the organized (formal) segment. Informal trade accounts for a significant proportion of India's economy. However, with rising per capita income and aspirational buying, the share of informal trade is gradually reducing. There is still a long way to go, though – various local and domestic institutions estimate that formal trade still accounts for 20-50% of GDP. Loopholes in the law and cash-based transactions in the informal sector have for long kept many businesses outside of the tax net [3] .**Jan Eliasson** (Deputy Secretary-General of the United Nations,) recently added that: "**Information and Communication Technologies** (ICT) are essential features of progress in modern life: ICTs are essential in providing good governance and public services and also helping in reducing poverty and inequality, and ensuring the inclusion of marginalised groups. ICTs are also beneficial for preserving our environment and our cultural diversity and in driving entrepreneurship, innovation and economic growth". Mobile services provide the most cost effective way of achieving digital inclusion and, by facilitating the exchange of ideas and information can support a move towards a knowledge-based economy. By enabling businesses and governments to deliver their services faster, and at a lower cost, mobile services increase productivity in the public and private sector. The reduction in transaction costs makes it easier for mobile subscribers to conduct everyday business operations, supporting the expansion of businesses and enterprises. Through wider effects on the economy, this helps to increase living standards and improve international competitiveness [4]. According to the World Bank (2015) reports many countries have some form of value added tax (VAT), which is called GST but the Indian GST experiment is revealed by a comparison with the other large federal systems—European Union, Canada, Brazil, Indonesia, China and Australia--that have a VAT (the United States does not have a VAT) [28].

2. Literature Review: There is an interesting feature of the developing countries that against the desirability of VAT, the existence of a large informal sector that avoids the VAT net[1]. Piggott and Whalley (2001) describes with an examples of a general equilibrium economy, where a VAT base broadening reduces welfare because of supply side substitutions toward informal and home production i.e. self -supply [14].

Nishitha Guptha (2014) in her study stated that implementation of GST in the Indian economy will lead to commercial benefits which were untouched by the VAT system. Hence GST may have the possibility of a collective gain for industry, trade, agriculture and common consumers for the Central Government and also for the State Government [9]. If inter-State transactions are concerned, the Centre will have exclusive power to levy GST which is called as Integrated Goods and Service Tax (IGST).In order to ensure uniformity in the levy and administration of GST, it has potentiality to affect the Centre-State financial relations and particularly the State's fiscal autonomy which is vital for sound federation. The state level value added tax in 2005 led to uniform tax rates and eliminated cascading tax rates (Kavita Rao 2008)[1] .Since the government has been working hard to promote digital payment systems to consumers, proactively offering different incentives and rewards. The government has reported a 400-1,000% increase in digital transactions since the demonetisation [7].The famous scientist Albert Einstein said that income tax is the most difficult thing to understand in the world. Our Prime Minister said that GST would ensure **one nation, one tax.** He described GST as an example of cooperative Federalism. He said Team India has proven its potential and diligence [24]. According to the International Labour Office (ILO), the informal economy is more prevalent in developing countries like India, accounting for 90 per cent of total employment .Informal contracts and precarious employment has been increasing within formal establishments as well. Women are more likely than men to work in

the informal sector. According to Losby et al, this is due to women's household responsibilities, particularly family responsibilities. Informal work can often be done from home and is flexible enough to be combined with other responsibilities. Some argue that the formal economy fails women because it inadequately accommodates their household responsibilities. In response, women have been at the forefront of rising levels of self-employment during the past few decades (Hughes, 2003, p. 433) [8].

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1. The informal sector is defined as that part of the economy which is unregistered, avoids tax. It usually includes agriculture, rural non-farm activities (accounted for in the GDP) along with the so-called shadow economy.

3. Objectives of the Study:

1. The concept & structure of Goods and Services Tax (GST) and its impact on Indian economy.
2. Explain how GST will work in SMEs in India.
3. The formalization process of the informal sector with the help of digitization and software implementation.
4. Discuss the advantages and challenges of GST in Indian context.
5. The policy of the govt for inclusive development of the country.

4. Data Source and Analysis:

The paper focuses on extensive study of Secondary data collected from various books, national & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

4.1 Concept & structure of GST: Goods and Services Tax (GST) is an indirect tax applicable throughout India which replaced multiple cascading taxes levied by the central and state governments [11]. Indian Constitution empowers the Central Government to levy excise duty on manufacturing goods and service tax on the supply of services. Further, it empowers the State Governments to levy sales tax or value added tax (VAT) on the sale of goods. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country. Besides this, central sales tax (CST) is levied on inter-State sale of goods by the Central Government, but collected and retained by the exporting States. Thus

Firstly, there is no uniform rate of taxation and tax structure across the states.

Secondly, there is cascading effect of taxation due to **'tax on tax'** [10].

The introduction of GST would mark a clear departure from the scheme of distribution of fiscal powers envisaged in the Constitution. The credit of GST paid on inputs at every stage of value addition would be available for the discharge of GST liability on the output, thereby ensuring GST is charged only on the component of value addition at each stage. This would ensure that there is no '**tax on tax'** in the country [11].GST simplifies and harmonise the **indirect tax regime** in the country. It is expected that implementation of GST is to reduce the cost of production and inflation in the Indian economy, thereby making the Indian trade and industry more competitive, domestically as well as internationally. The Indian market and significantly the economic growth of the country will foster by the introduction of GST. Further, GST will **broaden the tax base,** and result in better tax compliance due to a **robust IT infrastructure** [10].

However, there are some problems with the present VAT system. These are.....

- The credit of input VAT is available against output VAT.
- VAT is computed on a value which includes excise duty. This implies that there is still a tax on tax!
- GST will solve this problem. .

Present System of Indirect Taxation: The various types of indirect taxes that are presently levied by the Central & State Governments.

Table 1:

Ref.	*Tax*	*Levy by*	*Nature (Levied on) -*	*Can be Set-off against*	*Covered by GST*
1	Central Excise	Centre	Manufacture	1,2	Yes
2	Service Tax	Centre	Providing services	1,2	Yes
3	Customs	Centre	Import	-	*No*
4	CVD* under Customs	Centre	Additional Import duty (compensating Excise)	1,2	Yes
5	SAD* under Customs	Centre	Additional Import duty (compensating Sales Tax)	1,2	Yes
6	CST	Centre	Inter-State sales	-	Yes
7	VAT	State	Sales within a state	7	Yes

*(*CVD – Countervailing Duty; SAD – Special Additional Duty)*

Dual GST Model: The taxes levied on each kind of transaction are following:

Table 2:

Types of Transactions	**Old System**	**New System**	**Collection**
Sale within the state	VAT & Excise/ST*	SGST and CGST	Collected by the state governments
Sale outside the state	CST & Excise/ST*	IGST	Collected by the Central governments

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to central and state governments, tax payers and other stakeholders [25]. A comprehensive tax reform should help to raise more revenue to finance much needed social and physical infrastructure, promote corporate investment, enable more effective redistribution and strengthen the ability of states and municipalities to better respond to local needs. The implementation of the landmark GST reform will contribute to make India a single market. By reducing tax cascading, it will boost India's competitiveness, investment and job creation. The GST reform is designed to be initially revenue-neutral. It should be complemented by a reform of income and property taxes .Achieving strong and balanced regional development is also key to promote inclusive growth. Inequality in income and in access to core public services between states and between rural and urban areas is large.[35]

The GST Rate: The GST merged the indirect central and state taxes into a four-tier schedule of 5, 12, 18 and 28 percent, as seen in Table 3. While necessity goods taxed at 5 percent and luxury and consumer durable goods at 28 percent, most goods and all services taxed at the standard rates of either 12 or 18 percent, but the allocation to each tax rate is still uncertain.

Table 3: Tax rate

Goods				Services
Exempt 0% Agricultural goods	Low rate 5% Necessity goods	Standard rate 12% & 18% Distribution is undecided	High rate 28% Luxury & Consumer durables	12% & 18% Distribution is undecided

The main purpose of the GST is to eliminate the compounding effect of the current multilayered tax system as well as the cross–state tax heterogeneity by fixing the final tax rate.[34]

The Structure of GST & its framework is discussed in the parliament. It has brought some problems, like division of powers of taxation between the central government and the state governments. In fact, most administrators and producers believe it would make the tax procedures more fair, transparent and efficient. Thus it will bring in a new culture of governance, ending the tax terrorism and inspector raj. It would make it easier for global investors to invest in the Indian market [24]. But the current tax regime is unfairly skewed against most producers. Thus the system is operating in the following way:

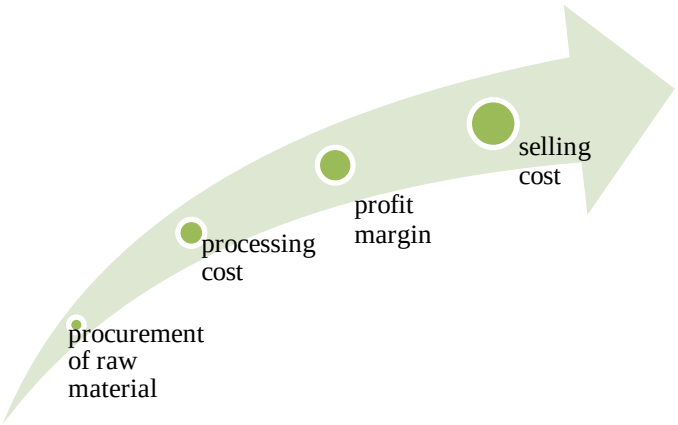

Figure 1: Value of the product [11]

The GST is a potential **game-changer** i.e. the burden of tax shifts from the state of manufacture to the state of consumption of goods and services. It is believed that revenues of manufacturing hubs - such as Gujarat and Maharashtra attract more workers, who make up a growing base of consumers. "By and large, it is a win-win situation for both the centre and the states," says Mr Subramanian [12]. The key advantages of GST over the present value-added regime (and myriad of other taxes) are:

a) The VAT structure and rates used to differ between states, whilst GST rates will be uniform across locations;

b) GST applies on a wider base, including both goods and services, unlike the VAT which has a relatively narrow base, along with a separate service tax.

Measuring India's Revenue Neutral Rate (RNR) Under the GST regime: The GST Committee described the three technical approaches for estimating the RNR which are described in following table 3. It is a given single rate that gets converted into a whole rate structure, depending on policy choices about exemptions, what commodities to charge at a lower rate (if at all), and what to charge at a very high rate. That single rate will be the focal point for the RNR. The calculation of the RNR is highlighted in the simple equation: **t=R/B**

Where t is the RNR, B is the total tax base, R is equal to revenues (both Centre and state) generated from existing sales and excise taxes, which is replaced by the GST. The following three approaches are following; the macro, the indirect tax turnover (ITT), and the direct tax turnover (DTT) based [28].

Table 4: Three approaches for estimating RNR:

Types	Formula for estimation	GST Base (in lakh crore)	RNR (Per cent)
Macro	It uses the following formula: $B = \sum(Y + M - X) - [(1 - e)\sum(N + I)]$ Where B is the potential GST base; Y is domestic output, (M-X) is net imports (imports minus exports); (N+I) is consumption of intermediate and capital inputs; e is the exempt output ratio (i.e. the tax base associated with inputs used in the production of exempt final consumption);	59.9	11.6
ITT	This approach, presented by the National Institute of Public Finance and Policy, estimates the base in a three step process. **First**, it estimates the goods base at the level of the States. **Second**, the services base is estimated based on turnover data. **Third stage**, adjustments are made to this base to remove IT-related services, because a large part of them are exported, and to remove most of real estate and financial services from the base because of the manner in which these items will be treated under the GST	39.4	17.7
DTT	This approach—described in the 13th Finance Commission--is based on using income tax data which are available for about 94.3 lakh registered entities (including companies, partnerships, and proprietorships but not charitable organizations.	58.2	12.0

ITT= Indirect Tax Turnover, DTT=Direct Tax Turnover

Source: Based on three approaches to estimating RNR

According to the World Bank (2015), over 160 countries have some form of value added tax (VAT), which is what the GST is. But the ambition of the Indian GST experiment is revealed by a comparison with the other large federal systems. The following table shows the comparison…..

Table 5: Comparison of VAT in India with other countries

Nature of VAT	Country	Disadvantages
Independent VATs at Centre and States	Brazil, Russia, Argentina	Differences in base and rates weaken administration and compliance. Inter-state transactions difficult to manage. VAT
VAT levied and administered at Centre	Australia, Germany, Austria, Switzerland, etc	State government relieved of responsibility of raising taxes which also takes away fiscal discretion of States
Dual VAT	Canada and India today	A combination of the above two and hence limits both their disadvantages
"Clean" dual VAT	India's GST	Common base and common or similar rates facilitate administration and compliance, including for inter-state transactions, while continuing to provide some fiscal autonomy to States

Source: World Bank (2015) [30]

4.2**Effects on Small Businesses:** The year 2017 will further witness strengthening of current policies and introduction of new initiatives to improve the business environment for MSMEs. Implementation of

the GST Bill is expected to benefit MSMEs not only with simpler tax structure but also with aspects such as improved technology adoption in order to comply with GST system. The 'One Nation, One tax' approach will make India an open market helping MSMEs explore new markets with no or low entry barriers and experience business expansion. Therefore, the upcoming GST Bill is expected to revolutionise the Indian tax system and offer the MSME sector an equal footing as compared to their bigger, more established counterparts [23] .The issue with Section 16 [11] is that it puts the administrative burden associated with the tax on the buyer rather than the supplier, which can be problematic for businesses. One potential issue that could arise as a result of the administrative shift is the non-payment of taxes by the supplier. A corollary to the documentation matching issue is the problems that could arise as a result of purchases made from vendors who are exempt from registering for the GST. The threshold rate for registration and payment of the GST has been lowered considerably, yet businesses with an annual turnover of less than INR 10 lakh for certain North-Eastern and Hill states and less than INR 20 lakh for other states remain exempt from the GST. The GST exemption has both advantages and disadvantages for small businesses. The most important **advantage** comes from not having to pay taxes on the goods and services provided by small businesses. This allows small businesses to have higher profit margins, while also permitting them to offer lower prices than larger competitors, levelling the playing field between small and large businesses to a certain extent. There is also the additional **advantage** of not having the working capital issues that businesses registered under the GST might have to deal with [18].Now a panel of state finance ministers suggested **fresh changes** to GST, including a cut in the levy at restaurants and a flat 1% tax for small traders, manufacturers and eaters that opt for the less onerous composition scheme [33].

In the small scale enterprises there are three categories:-

i) Those below threshold limit need not to register for the GST.
ii) Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.
iii) Those above threshold limit will need to be within framework of GST.

In respect of the central GST the situation is slightly complex.GST is expected to encourage compliance and which is also expected to widen tax base adding upto 2% to GDP. Manufacturer's traders will have to payless tax with the implication of GST [19].

4.3 India's vast informal sector: The National Commission for Enterprise in the Unorganized Sector (NCEUIS) in 2008 had estimated that: 50.6% of GDP in FY05 was unorganized. This sector accounted for 75.1% of trade and 63.4% of real estate transactions [20]. According to the National Sample Survey Office (NSSO) conducted in 2008, 86% of total employment was in the informal sector in FY05. Of this, 64% was in agriculture, 15.3% in industries and 20.6% in services sector. Around 80% of the informal sector workers were from rural areas. Unorganized players enjoy significant economies of operation as they incur less compliance cost relative to their organized counterparts. Such markets also get encouragement as entities avoid being part of organized sector due to hassles of complying with multiple tax structures. It is observed that India's large informal sector that escapes taxable transactions, the opportunity cost of being under the tax system cannot always outweigh the benefits. The presence of informal credit and labour markets, as well as a large domestic demand for locally produced goods and services, often leads to unaccounted-for incomes that avoid taxation. Since the new tax regime is expected to work through more integrated and redefined supply chains, for the regime to be beneficial and successful, it is important that more and more enterprises find it useful to be a part of the GST regime. By excluding goods that are important to maintain government revenue — like petroleum products and electricity — from the GST system, significant cascading of taxes of the present indirect tax

system will be retained hampering the export competitiveness of domestic industries. Cascading of taxes generates revenue for government, although it goes against the interests of business [21].

4.4 Formalisation of Informal sector through GST and Digitization process: Indian economy is largely informal. But for examples, once a taxi driver becomes part of Ola, and then in fact he becomes part of the formal economy. He is able to use data, get a loan, buy a car and start paying taxes. So the formalisation of a few hundred millions of Indians will expand growth, it has put the spotlight on one critical collateral gain from tech disruption: the formalization of India's informal sector. Coincidentally, it happens at a time when the government and the Reserve Bank of India, in tandem, have begun a **big push towards a cashless economy,** which again formalizes the informal sector. At present, only 10% of India's over 470 million workforces are in the formal sector. In other words, 90% of India's workers do not have the privileges—like social security and workplace benefits—enjoyed by their counterparts who are formally employed. This is patently unfair. In the past, public policy conspired with political parties to retain this status quo—as the returns of being part of the anti-poverty industry were lucrative. Now, technology is forcing a change [22]. The Govt. introduced a **Digitalized Customs Process** that could ensure easy and streamlined movement of goods across India's borders [16]. Digitisation has had a major transformative effect, and has impacted upon every sector of the economy. Business models have emerged demonstrating common features – mobility, use of data to generate value and network effects. These trends show no signs of decreasing. Digital technologies will increase competitiveness in the economy; this is likely to be global in scale, given that geographical barriers are becoming increasingly irrelevant [29]. A digitalized customs process would benefit both India's domestic exporters and firms that leverage foreign imports, and contribute to the overall efficiency and productivity potential of India's economy [16] .The GST portal or GSTN hosted at https://www.gst.gov.in/ is a website where all the returns and registration related processes under GST is carried out. After GST Login, the registration, uploading of returns, uploading of invoices and payment of taxes, etc are required to be done on the GST portal [26]. In our personal space, we now pay monthly salaries to our various household helps (cooks, plumbers, electricians, painters, etc.) not even through cheques but through direct bank transfers. Recently, one of India's top e-commerce retailers shared two facts in an informal interaction one, most of the merchants of non-electronic items sold on their website; two, using the transaction data of these merchants, the company has begun to create credit history and then extend working capital loans to them.

All this is possible because of the enabling circumstances: a young population—65% of India is less than 35 years of age—of which a greater proportion are more literate than the older age-groups; growth; adoption of mobile-based apps; and a push towards a **cashless economy**. This trend is likely to get a fresh boost when the next battle in the Indian telecom sector unfolds with the formal entry of Reliance Jio. Such a low entry price (together with generous data plan offers) should create an influx of an entirely new set of users of data (who otherwise have to either economise because of high costs or piggyback on free WiFi). As a result, a generation of small businesses and micro entrepreneurs can now be part of the platforms that are springing up on this national IT highway. Surely, this integration of the informal into the formal economy can only augur well for India and its denizens [22]. The following types of GST software are available in the market:

Top 5 GST Software in India:

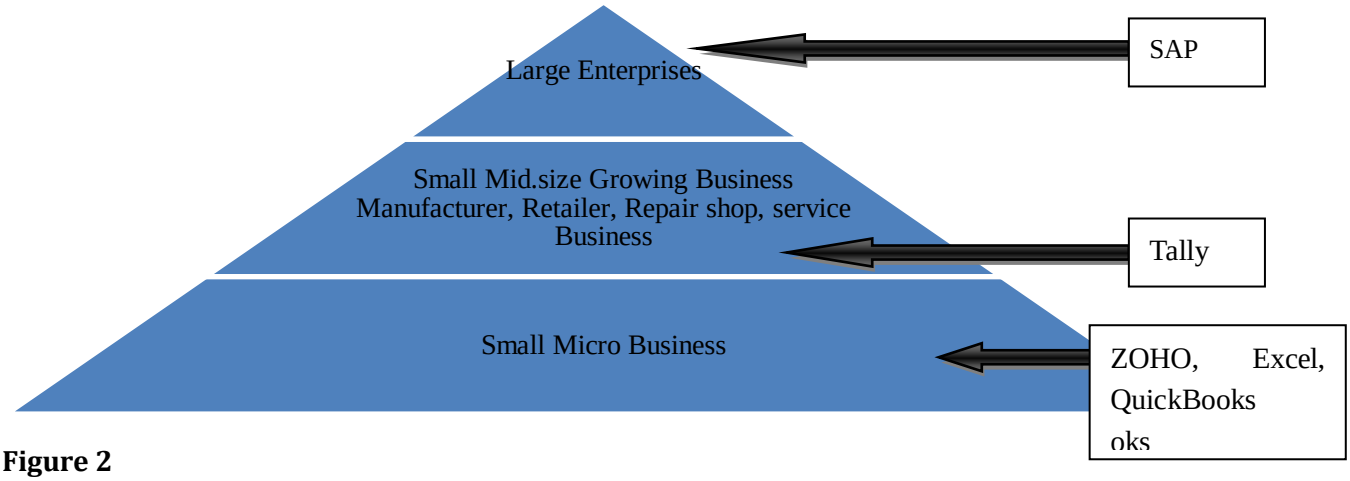

Figure 2

- **GST Enabled accounting software:** It is user friendly software that customizes with your business with ease. It allows you to control your business wherever you are. It has two types
- **GST Filing Software** for Tax Consultants
- **GST enabled Business Software** for Small and Medium Business[**26]**

4.5 Anomalies in tax regime: In the previous tax regime, there exist various anomalies (e.g. unavailability of input credits, taxes on output are higher than on inputs) incentivizing businesses to benefit by breaking the value chain.

- **Unavailability of input credit**: Taxes paid under one statute are not allowed to be set off against taxes paid under other statute. Hence, an entity not able to claim the input credit is incentivized to remain outside the organized value chain.
- **Taxes on output much higher than input:** Under the VAT structure, inputs for many industries are exempted or taxed at a lower rate of 4%, while output is taxed at a base VAT of 12.5%. Such a big gap between input and output rates provides incentives to manufacturers for not reporting sales.
- **Increased competitiveness for unorganized players:** SMEs are generally at a cost disadvantage of working with a lower scale. Operating in the unorganized market leads to skirting of indirect taxes (e.g. excise/ VAT/service tax). The benefit is usually passed on (either partially or wholly) to consumers to offer an enhanced value proposition. This increases the competitiveness of unorganized players. Demonetization of high-value currency notes has created fear among unorganized players as transactions in this space were mostly cash-based and unaccounted [23] **.**

4.6 Challenges of Indian GST: Introduction of GST will enable higher consumption, decision on production and services availability based on proximity to consumers rather than tax arbitrage reasons. Across India, there is central levy of tax on the service industry, i.e., service tax which is independent of the business model. However, under GST framework the law requires the tax payer to pay CGST (central GST) and SGST (state GST) and Integrated GST. This will bring a complexity which did not exist till now for services industry.

- **Multi-State operations to have complex compliance management vs. current centralised compliances under service tax regime:** Under the GST regime, dual structure of levy – CGST and SGST – will have to be paid depending upon the state jurisdiction of service provided as per Provision of Place of Supply Rules. This will essentially become more difficult for

companies which may be required to have multiple registrations basis their presence in specific states. Such companies will also be required to split their GST payments across the states. For companies with heavy online revenue collection and offline service delivery concept at decentralised state levels, there will arise multiple other challenges.

- **IT system challenges**: From IT perspective, every company will be obligated to have a robust IT system in place as there will be a need of high level customisation or patch addition to make the existing model GST compliant. Under the proposed structure of GST, state-wise output GST liability and input GST credit register will be required to be maintained vs. current centralised structure. It would be extremely difficult for services companies to manage this without strong IT systems, which may help them to capture output and input GST levy state wise at transaction level itself. IT system will support multiple GST returns, to generate invoices which are GST compliant (subdivision of tax into three segments of CGST, SGST and ISGT) and this will lead to substantial complexity in IT solutions. This differs considerably from the current system followed by any service industry.
- **GST credits:** With the set off of input GST credit vs. output liability in same state, there can be high level of mismatch between inputs credit of GST in one state vs. output GST in another state as against the current service tax input credit set-off procedure which does not need state wise differentiation. To address this anomaly, the service industry will be forced to realign the terms of its existing/new commercial contracts in a way which can help it in not accumulating the GST input credit in one state.
- **Higher rate of GST**: The suggested rate of GST is in the range of 17–19 per cent. The proposed GST rate will impact services, which are currently taxed at a rate of 14.5 per cent. .
- **Challenges related to initial transition**: Multi-state registrations for services industry vis-à-vis centralised registration currently, changes in reporting structures vs. current set procedures, accumulated credits of service tax for exporting units, etc., will add to initial challenges.

These are some of the factors which will render complexities for services industry under the proposed GST regime and may reduce ease of doing business on overall basis for this important sector in economy contributing nearly 60 per cent to Indian GDP**.** Therefore, serious efforts are required to reduce complexities for services industry under GST framework like acceptability of centralised registration for state GST compliances, clarity in Place of Supply Rules with respect to inter-state transactions, calibrated increase in GST rate vs. current service tax rate, etc [13].

5. Policy Recommendations:

The government must ensure a certain level of stability in the area of international taxation. Recent efforts by the government seeking to create an atmosphere of certainty and predictability in this area are very welcome and this will definitely boost investor sentiment and attract foreign direct investment (FDI). The dominant part about GST is its self-governing mechanism to check tax evasion and magnify the tax net through a couple of clauses in this tax regime. The notable deterrent for the tax department in going after tax evaders is the paucity of manpower. It's challenging to check the small evaders[27]. Indian govt. has needed to address the issues concerning taxation of foreign companies in a manner that balances for expansion of the revenue base and with the confidence of the investors. The volume of overseas investment into India has grown over the last few years. But it has boosted employment, and helped to develop infrastructure, it has also led to a growing number of tax disputes. India has tried ways and means to develop an effective dispute resolution mechanism and the following steps need to be consolidated and developed.

Strengthen fiscal frameworks through legislative and institutional reforms.

• Improve spending efficiency, especially on subsidies, by improving targeting and delivery mechanisms.

• Proceed with the implementation of the GST, minimising exemptions to keep the base as broad as possible while also aiming for a single rate within each state.

• Implement a revised Direct Tax Code which streamlines collection and reduces the overall burden of direct taxes.

[17]

In general the supplier of goods or service is liable to pay GST. However in specific cases like imports and other notified supplies, the liability may be cast on the recipient under the reverse charge mechanism. Further, in some cases, the liability to pay is on the third person. [30].

6. **Conclusion**: In the 12th five year plan (2012-2017) document outlined an ambitious agenda for policy change. It included policies that would encourage a flow of both risk capital and debt into small and medium industries. Rationalisation of tax policies, including the introduction of GST, is another very important area, as is the rationalisation of subsidy policy to progressively reduce dysfunctional subsidies, and make essential subsidies better targeted through the use of Aadhar. The policy agenda outlined in the Plan lie in the domain of the Central Government but many also lie in the domain of the States. The implementation of the GST, which is an extremely important initiative, depends upon joint action, since it involves a constitutional amendment. However a substantial effort in the broad directions indicated in the Plan, will have a significant effect on outcomes and experience of success in some States will encourage others to follow suit [28]. India's debt-saddled state-owned banks need to clean up their books and ease lending. The government should move swiftly and imaginatively on creating jobs, boost agriculture and ensure social stability **for long-term and inclusive growth**[11].The government has placed a great deal of emphasis on curbing black money reflected in the Black Money Bill. These measures can be very significantly complemented by a GST, which, especially if it is extended to as many goods and services as possible (especially alcohol, real estate and precious metals), can be a less intrusive, more self-policing, and hence more effective way of reducing corruption and rent-seeking [28] .India also needs to mop up a lot more income tax - only 1% of Indians pay the tax and evasion is pervasive. Successive governments appear to be helpless in reforming corrupt tax-collection machinery. But most believe that even an imperfect GST law should be given a chance to succeed. Many professional argued that no country has claimed a flawless GST since inception, and further & better change in complex systems is incremental. According to them that the perfect ought not to become the enemy of the good, especially as a less-than-perfect GST which can be improved down the road will be better than our current patchwork quilt of taxes, which prevents India from being stitched into a single market."One nation, one tax gets going", it's not going to be an easy journey [11].

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