



GST in India: Challenges and prospects

Dr. Jayashree, R Kotnal

Assistant Professor & Head, BLDEA's SBS Arts & Commerce College for Women, Vijayapur, Karnataka, India

Abstract

Goods and Service Tax is a value added tax to be implemented in India. GST is to replace the existing taxes like excise duty, service tax and sales tax. It aims at creating unified market in the country which will benefit the corporate and economy. Further it aims at eliminating the cascading effects of the existing tax structure. GST will be implemented parallel by central and state government as CGST and SGST respectively. This article highlights the background, objectives of GST and proposed model of GST in India. Further it deals with the challenges and prospects associated with the implementation of GST. Finally the articles draw out the conclusion that GST is beneficial to the government and stakeholders. It is helpful in avoiding tax evasion, improves tax collection and compliances. It reduces the cost of goods and services and creates a supportive environment for international trade, thereby helping in revenue generation leading to the increase in the GDP of the country. It has great prospects in favor of the nation followed by the challenges too. Finally, it is said that government have both the side of the coin like challenge and opportunity. But, it is not an easy task for the government to consider the prospects, without facing challenges. This will prove a milestone in the history of indirect tax reform. It is said that government have both the side of the coin like challenge and opportunity. But, it is not an easy task for the government to consider the prospects, without facing challenges.

Keywords: goods and service tax (GST), cascading effects, tax structure, CGST, SGST

Introduction

The word tax is derived from the Latin word 'tax are' meaning to estimate. A tax is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and it is any contribution imposed by government whether under the name of toll, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name. Indian Taxation System comprise of- Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country. So, GST is the need of the hour.

Section 1 of the article introduces the GST, its objectives and the proposed GDT model for India. Section 2 of the article examines the challenges and prospects associated with the implementation of GST. Section 3 lays down the key suggestions and conclusion of the article.

Introduction of goods and service tax

Goods and Service tax bill officially known as the constitution (one hundred and twenty second amendment) bill, 2014 proposes a national value added tax to be implemented in India from June 2016. Initially the idea was that there would be a national level Goods and Services tax. But as the release of first discussion by the empowered committee of the state Finance Ministers on 10.11.2009, it has been made certain that there would be a "Dual GST" in the country. Centre and state both governments are entitled to charge taxes on the goods and services.

New Article 366(12A) of the Indian Constitution, defines

Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.

GST is a broad based, single, comprehensive tax levied on goods and services at each point of sale of goods or provision of service, in which, the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or availing the service; the final consumer will thus bear only the GST charged by the last dealer in the supply chain. With the introduction of GST at the State level, the additional burden of CENVAT and services tax would be comprehensively removed and major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes. Thus it marks a major improvement over the previous system of VAT. Again, the transparent and complete chain of set-offs, GST will help-widening the coverage of tax base and improve tax compliance. This may lead to higher revenue which further results in lowering of tax burden. Although there are many hurdles to be crossed before the implementation of GST like consensus over rates, constitutional amendment, compensation mechanism for states losing out on revenue, varying models, dispute resolution etc. the Central government has reiterated its commitment towards the adoption of a 'flawless' GST for the survival of the India's economy in the face of increasing international competition consequent to globalization and liberalization. Despite the various impediments to the proposed transition, until the time GST is implemented, it would be worthwhile to assess its positive impacts on the various development areas in India.

This aspect is the subject matter of this paper Goods and Services Tax (GST) in India is proposed to be the maiden

reform in the existing indirect taxation structure. Thus the proposed GST is a long pending and much awaited tax reform which could remove the deficiencies in the existing indirect taxation system.

Objectives of goods and service tax

- GST would help to eliminate the cascading effects of production and distribution cost of goods and services. This would help to increase GDP and then to economic condition of the country.
- GST would eliminate the multiplicity of indirect taxation and streamline all the indirect taxes which would be beneficial for manufacture and ultimate consumer.
- GST would be able to cover all the shortcomings of existing VAT system and hopefully serve the economy health.
- Incidence of tax falls on domestic consumption

- The Indian market should be integrated into single common market
- It enhances the cause of co-operative federalism.

Proposed GST model for India

India is opting for Dual GST model. To understand the operating procedure of Dual GST Model let us consider the tax/taxes which shall be levied as per place of supply of goods and services.

- CGST – Central Goods and Service Tax
- SGST – State Goods and Service Tax
- IGST – Integrated Goods and Service Tax

Additional Tax (up to 1%) to be levied in case of inter-state supply of goods, which is a non-vatable item. Hence, no input credit available on such.

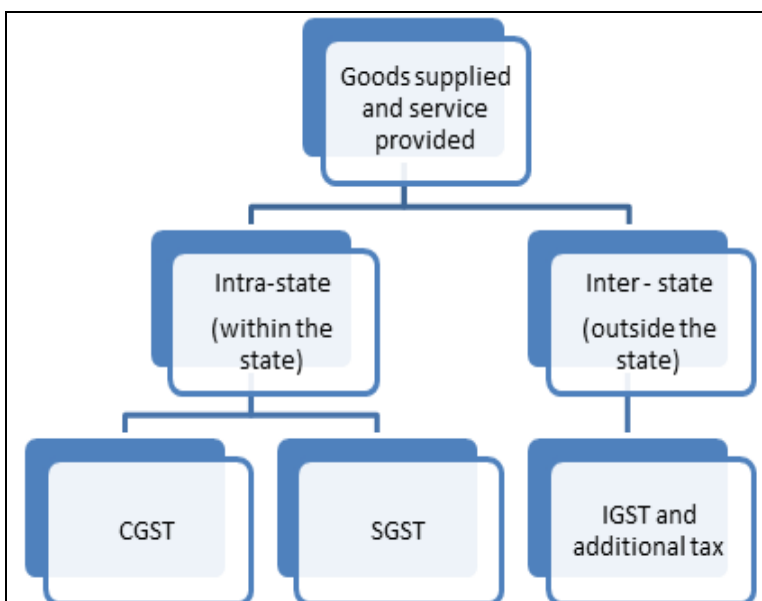


Fig 1: The following chart shows when each of these taxes will be levied

Table 1: A summary of levy and the imposing and collecting authority.

Nature of levy	To be levied by	To be paid to the account of
CGST	Central Government on Intra-State Supply of Goods and/ or Services	CG
SGST	State Government Intra State Supply of Goods and/ or Services	SG
IGST=CGST+SGST	Central Government on Inter-State Supply of Goods and/or Services	CG
Additional Tax	Central Government on Inter-state supply of goods, but the net proceeds to be assigned to the States from where supply originates	CG

Challenges

Administrative Issue

GST includes various types of Indirect Taxes where revenue will be divided between the Central and State Government. Administrative issues may arise regarding the matter of authority with respect to the controlling system, decision of the tax rate and administration.

Political Issue

Presently VAT is levied by 29 States and 7 Union Territories of India. Constitution has provided the power and autonomy

to union and state government to decide the tax rate and to control the tax system. This is restricting the government from bringing any change in the structure of tax system.

Consensus

The socio-economic conditions of the States in India differ from that of the countries of the European Union. Hence, before implementing GST there should be a clear consensus whether there would be a net benefit for the Indian economy and/or whether Indian economy is ready to absorb the benefits of the GST regime.

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. But, there are numerous other states and union taxes that would be still out of GST.

Registration Issues

Proposed GST will be implemented through multiple statutes (one for CGST and SGST statutes for every State). But it is not certain whether facility for centralized registration will be available or not, the position in this regard is not clear at present.

Assessment under dual GST

As per the recommendation of The Task Force Report on GST Central Board of Excise & Customs (CBEC) shall be responsible for implementing the CGST and the State Tax Administrations will be separately responsible for implementing the SGST. The various tax administrative functions such as assessment, enforcement, scrutiny and audit should be undertaken by the CBEC in respect of the CGST and by the State Tax Administration in respect of the SGST subject to recommendation on small scale industries. There may be also be cases under GST wherein a dealer need to face multiple assessments in various States, which will make the life of multi state corporate highly cumbersome.

Prospects

India and GST

India has federal structure. Union Government has planned for a dual GST model where Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the Taxable value of goods plus services.

Increase in Revenue

The GST is expected to bring benefits to the user of the supply chain of goods and services which include from beginning to ending the whole industry, agriculture and trade. This is expected to generate the higher amount of revenue for the industry as well as business prospects by lowering the tax burden.

Benefit to exporters

The cost of manufactured goods and services will decrease with the reduction of input cost of major Central and State Taxes in GST. This will create a competitive environment of goods and services of India, in the international market.

Transparency

The management of GST is expected to be transparent and rationalized. The consumers will be benefitted from lowering the Tax burden on goods and services consumed by them.

Reduces the cost of taxpayers

Implementation of GST will significantly reduce the compliance cost for taxpayers by simplifying and harmonizing the tax structure and by making the administration uniform across states.

An End to Cascading Effect

This will be the major contribution of GST for the business.

Currently, there is different state level and centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization. GST will bring an end to such cascading effects.

Eliminates multiple level of taxation

Goods and Services tax will eliminate multiple chain of the taxation. The termination of the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

Conclusion

In the light of the above discussion, GST system seems to be beneficial for the Government as well as stakeholders. It can be looked as simplification of Taxes in country avoiding unnecessary complexities. GST is helpful in avoiding tax evasion, improves tax collection and compliances. It reduces the cost of goods and services and creates a supportive environment for international trade, thereby helping in revenue generation leading to the increase in the GDP of the country. Similarly, it also adds to lowering the Tax burden on the various segments of the economy.

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