



An insight into the development of Indian GST

*¹ Anushuya, ² Karam Pal Narwal

¹ Senior Research Scholar, Haryana School of Business, Guru Jambheshwar University of Science and Technology, Hisar, Haryana, India

² Professor, Haryana School of Business, Guru Jambheshwar University of Science and Technology, Hisar, Haryana, India

Abstract

Indian GST is considered a revolutionary step in Indian Indirect Tax System history. It has been hot topic in Indian taxation system since its introduction in 2009 till after the implementation in 2017. This paper provides an insight into the development of it and analyzes this development to figure out lessons from Indian GST which can help the countries especially federal ones which are going to implement it. This paper uses secondary data such as government documents and research papers etc. for this analysis.

Keywords: GST, CGST, SGST and tax reform

Introduction

Goods and Services Tax is an ideal sales tax system. It features as inclusion of goods and services, consumption base tax, single rate and threshold etc. 170 Countries of the world has adopted it. It has various types depending on political, economic and sociological structure of a country. India is no exception of it. First seed of it lies in 2000 when it was addressed in the budget speech. It had crossed through a long path before implementation on 1 July 2017. This paper firstly overviews this development and then analyze this progress to provide recommendation for the future tax reforms.

Research Methodology

This study has explorative nature. It uses secondary data sources such as government reports, gazette of India, Parliamentary reports, websites of revenue, finance, CBEC departments of Government of India and State Governments.

Objectives

- To overview and analyze developments in Indian GST.
- To make suggestion from it about implementation of a tax reform.

Development In Indian Gst

Goods and Services Tax which is adopted by countries is a very important sales tax system. This tax includes both goods and services which simplifies tax system. India also adopted this system gradually. In the initial time of taxation, cascading system prevails which means tax on tax. Prior to the introduction of VAT in the Center and in the States, there was a burden of multiple taxes in the pre-existing central excise duty and the states' sales tax systems. Before any commodity was produced, inputs were first taxed, and then after the commodity got produced with input tax load, output was taxed again. This was causing a burden of multiple taxes with a cascading effect (i.e. "tax on tax"). Moreover, in the sales tax structure, when there was also a system of multi-point sales

taxation at subsequent levels of distributive trade, then along with input tax load, burden of sales tax paid on purchase at each level was also added, thus aggravating the cascading effect further.

In an ideal sale tax system, cascading should not be prevailed. Root of this system is laid when MODVAT (Modified Value Added Tax) was introduced in budget 1986 after recommendation of Jha committee in 1976 at the central level. MANVAT (Manufacturing level Value Added Tax) was named as CENVAT (Central Value Added Tax) in April 1, 2000. CENVAT Credit Rules 2002 was introduced on 1 March 2002 vide notification No. 5/2002 C.E. (NT) dated 1-03-2002.

As far as state level is concerned, it is also full of complexity and cascading effect. Discussion was made over these issues in the meeting of chief ministers convened by Manmohan Singh, the then union finance minister in 1995. State finance ministers were met continuously after that and took two decisions for the implementation of VAT at state level in the meeting convened by Yashwant Sinha, the then Union Finance Minister in 1999. They were: To harmonize state sales tax rates and then implement state VAT in their states.

Keeping these objectives in mind, Finance Minister has announced introduction of GST from April 1, 2010 in his budget speech of 2007-2008 and Empowered Committee of State Finance Ministers was constructed to make a road map to implement it. To work on it, Empowered Committee constructed a Joint Working Group on May 10, 2007. This group has adviser to Union Finance Minister and Member-Secretary of this committee as co-convenor along with four Joint Secretaries of revenue department and all Finance Secretaries of states who were given role of members in it. This group was further divided into three sub-groups and these sub-groups had meetings with industry representatives and Chambers of Commerce and Industry.

A report on 19 November 2007 was submitted which was the addition of the reports of the sub-groups. This report was

discussed in the meeting of Empowered Committee on 28 November 2007. It also asked written comments of states on this report. Co-conveners and representatives of Union Finance Ministry made discussion on the modifications which were found necessary after discussion and written observations of States. After this exercise on April 30, 2008, view on model and road map was finalized and sent to Government of India which sent their comments on it on 12 December, 2008. Empowered Committee took consideration of these comments on 18 December, 2008 and formulated committee of Taxation and Commissioners of Trade Taxes of States, Secretaries of Finance and Principal Secretaries to review these comments. Views of this committee were accepted by Empowered Committee on 21 January, 2009. To discuss and recommend structure of GST in detail, a working group having concerned officials of states and senior representatives of center was constituted. Compensation of

loss of revenue due to CST (Central Sales Tax) abolition was discussed by then Finance Minister, Pranav Mukherjee with Empowered Committee on 19 October, 2009. Empowered Committee presented first discussion paper and frequently asked questions and answers on GST for open discussion after taking detail view on recommendations of working groups and others on 10 November 2009.

In 2009, then Finance Minister introduced GST in his budget speech. The 115th Constitution Amendment Bill was placed before Parliament in 22 March 2011 but could not be passed and sent to the Standing Committee for review on 29 March, 2011. In 2014, UPA government was replaced by NDA government and new bill named as the Constitution Amendment Bill no.122 was placed before the Parliament on 19 December 2014. Comparison of these bills is presented in Table 1.

Table 1: Comparison of Amendment Bill of 2011 and 2014

Bases	Amendment Bill 2011	Amendment Bill 2014
Scope	All goods or services <i>except</i> : <ul style="list-style-type: none"> Alcoholic liquor for human consumption. Petroleum crude, high speed diesel, motor spirit, natural gas, aviation turbine fuel. Centre to impose additional levy on tobacco. 	All goods and services, <i>except</i> : <ul style="list-style-type: none"> Alcoholic liquor for human consumption. GST is to be levied on petroleum crude, high speed diesel, motor spirit, natural gas, aviation turbine fuel at a later date. Centre to impose additional levy on tobacco.
IGST	<ul style="list-style-type: none"> Only center to levy and collect tax. Tax collected to be divided between the center and the states. 	<ul style="list-style-type: none"> Only center to levy and collect tax. Tax collected to be divided between the center and the states.
Additional Tax	no provision	Tax (up to 1%) on the supply of goods in inter-state trade will be given to supply states, for two years or more.
Compensation to states	no provision	Parliament may provide for compensation to states for a maximum of five years.
GST Council	<ul style="list-style-type: none"> Functions: Recommendations on taxes to be subsumed, exempted goods, threshold limits, rates. Decisions: By consensus. 	<ul style="list-style-type: none"> Functions: Also includes model GST laws, principles of levy and place of supply, apportionment of IGST. Decisions: Standing Committee recommendations incorporated.
Dispute Settlement	<ul style="list-style-type: none"> GST Dispute Settlement Authority to determine disputes between center and states. Parliament may restrict jurisdiction of all courts other than Supreme Court. 	<ul style="list-style-type: none"> Omit GST Dispute Settlement Authority. GST Council to decide upon the modalities to resolve disputes.

Source: PRS Legislative Research, 2015

It was passed by Lok Sabha on May 6, 2015 and Rajya Sabha on August 3, 2016. After passing this bill for amendment in Indian Constitution, GST road was almost clear and draft bill of both levels were designed and asked public suggestions in

July 2016. The President, Pranav Mukherjee gave his consent on it on September 2, 2016 and GST Council was constituted on September 12, 2016.

Table 2: Comparison of Amendment Bill of 2014, Standing Committee Report 2015 and 2016

Bases	Amendment Bill of 2014	Standing Committee Report 2015	Standing Committee Report 2016
Additional Tax	levy additional 1% tax by states	Leads to cascading	delete the provision
Compensation to states	Full five year	Full five year	Full five year
Dispute Settlement	GST Council has power to settle dispute.	no recommendation	Gives right to GST Council to establish separate appellate authority to settle disputes.

Source: PRS Legislative Research, 2015

Real hurdles are the consent over the rules and regulations of it. First meeting of the Council was held on 22nd and 23rd September at Delhi. In this meeting various issues related to threshold exemption limit, dual control, composition scheme and calculation of compensation loss were discussed.

Composition scheme threshold limit was decided 50 lakh along with rate of 1/2 % of the turnover. Threshold was decided 10 lakh and 20 lakh for the North-East and Hilly areas and rest of India respectively. Second meeting of this Council was held on 30th September at Delhi. In this meeting,

discussion on matters i.e. exemption from GST, North-Eastern and Hilly regions from excise duty, registration, rules for payments, returns, refunds and invoices.

Third meeting of this Council was held on 18-19 October at Delhi. In this meeting, four rates were agreed with cess on luxury and demerits goods like Tobacco. Luxury items and demerits good were placed under high slab of tax. Tobacco, luxury cards, acrated beverages were included into ultra-luxury items. Food and 50% item of common use were exempted. Growth rate and base year for compensation of loss was finalized as 2015-16 and 14%. Five years were finalized for compensation. Exemptions amount was also included for the calculation of the revenue of States. Forth meeting of this Council was held on October at Delhi. In this meeting, five rates i.e. 5%, 12%, 18%, and 28% were finalized but issue of assesse of service tax was unsolved.

Fifth meeting of this Council was held on 2nd and 3rd December at Delhi. Reasons of rescheduling this meeting were demonstration and conflict over service tax assesse. This meeting was scheduled 10th and 11th December. In the sixth meeting (11 and 12 December, 2017), model draft of GST which was put before public on 26 November 2016 was discussed and its 99 sections out of 197 were deliberated. In seventh meeting (22 and 23 December, 2017), discussion on CGST/SGST draft was made and compensation formula in which 100% compensation on every two months was also approved. It was also decided to redraft language of the model draft.

In eighth meeting (3rd and 4th January 2017), draft State Compensation law was approved. Discussion was made on IGST law and other procedures issues and issues related to leather and cement industry were also discussed. In ninth meeting (16th January 2017), Service tax assesse were divided among center and state in the ratio of 90:10 with turnover up to 1.5 crore and after this the ratio of 50:50. IGST rule about power was also discussed and decided that center had that power. Though States were also cross empowered in same

ratio yet conflicts of dividing asseses was there. Area of 12 neautical miles into the territorial waters was given to CGST. SGST can be levied on the economic activities.

In tenth meeting (18 February 2017 at Udaipur), cleared draft Compensation Bill. Anti- profiteering clause also cleared. Power of CAG for audit removed. Minutes of previous meeting was also discussed as there was some conflict on it by the States. Name of CBEC was changed on and now it is called as CBIC.

In eleventh meeting (4th March 2017 at New Delhi), Final draft has approved CGST and IGST. Small hotels, restaurants and dhabas with an annual turnover of up to 50 Lakh was also includes for 5% composition scheme in which 2.5% was levied by center and states each. CGST, UTGST and Compensation Act were passed in the Lokh Sabha and Rajya Sabha on respectively. President's consent on these Acts was given on September 2, 2016. In twelfth meeting (16 March 2017), UTGST and SGST were approved in this meeting. Cess on sin and Luxury goods at 15% was approved in this meeting. In thirteenth meeting, five rules i.e. registration, refund, payment, return and invoices were finalized which were later approved by Lokh Sabha on 29 March 2017. Four rules which include composition scheme, valuation, ITC and transitional provisions were tentatively drafted.

SGST bill was required to be passed in the respective states assembly for the implementation and Telangana was the first state to pass it on 9 April 2017. Bihar and Rajasthan passed it on 24 April 2017 and 26 April 2017 respectively and became second and third state to implement it. Haryana passed it on 4 May 2017. 31 States and Union Territories have passed it in their Assemblies. Table 3 presents the SGST/UTGST passing dates in column 3.

In fourteenth meeting (19 May 2017 at Jammu and Kashmir), Rates of goods and 500 services were decided in this meeting. Decision about continuation of exemption on healthcare and education was also taken.

Table 3: States passed SGST/UTGST Act

Sl. No.	Name of the State	Date on which SGST/UTGST Act passed in the Assembly
1.	Telangana	Act Passed on 9 th April 2017
2.	Bihar	Act Passed on 24 th April, 2017
3.	Rajasthan	Act Passed on 26 th April 2017
4.	Jharkhand	Act Passed on 27 th April, 2017
5.	Chhattisgarh	Act Passed on 28 th April, 2017
6.	Uttarakhand	Act Passed on 2 nd May, 2017
7.	Madhya Pradesh	Act Passed on 3 rd May, 2017
8.	Haryana	Act Passed on 4 th May, 2017
9.	Goa	Act Passed on 9 th May, 2017
10.	Gujarat	Act Passed on 9 th May, 2017
11.	Assam	Act Passed on 11 th May, 2017
12.	Arunachal Pradesh	Act Passed on 12 th May, 2017
13.	Andhra Pradesh	Act Passed on 16 th May, 2017
14.	Uttar Pradesh	Act Passed on 16 th May, 2017 (in both the Houses)
15.	Puducherry	Act Passed on 17 th May, 2017
16.	Odisha	Act Passed on 19 th May, 2017
17.	Maharashtra	Act Passed on 22 nd May, 2017
18.	Tripura	Act Passed on 25 th May, 2017
19.	Sikkim	Act Passed on 25 th May, 2017
20.	Mizoram	Act Passed on 25 th May, 2017

21.	Nagaland	Act Passed on 27 th May, 2017
22.	Himachal Pradesh	Act Passed on 27 th May, 2017
23.	Delhi	Act Passed on 31 st May, 2017
24.	Manipur	Act Passed on 5 th June, 2017
25.	Meghalaya	Act Passed on 12 th June 2017
26.	Karnataka	Act Passed on 16 th June 2017
27.	Punjab	Act Passed on 19 th June 2017
28.	Tamil Nadu	Act Passed on 19 th June 2017
29.	West Bengal	Act Passed on 15 th June 2017
30.	Kerala	Act Passed on 21 th June 2017
31.	Jammu and Kashmir	Act Passed on 5 th July 2017

Source: Press information Bureau, Ministry of Finance, Government of India.

Fifteenth Meeting (3 June 2017), six items rates were approved in this meeting. Committee for complaint was also made regarding anti-profiteering clause. Bill cleared related to transition provisions and returns. Biscuits at the rate of 18%, gold, gems, Jewelry at the rate of 3% and 5% GST on apparel below Rs 1000 were approved by the Council. Readymade garments were decided to tax at 12% but yarn and Fabric

cotton at the rate of 5% and footwear at the rate of 18% above the rate of Rs 500. Rough Diamond was approved at the tax rate of 0.25%. There was no cess decided on beedis. Sixteenth Meeting (11 June 2017), tax slabs of fertilizer and exclusive parts of tractors were reduced from 12% to 5% and 28% to 18% respectively.

Table 4: Progress of Indian GST

Sr. No.	Year	Progress
1	2000	Vajpayee government set up empowered committee headed by Asim Dasgupta for looking possibility of GST
2	February 2006	Announcement about GST by finance Minister in budget speech
3	April 2007	Empowered Committee of State Finance Ministers set up Joint working group
4	November 2007	Report submitted by Joint Working Group after internal discussion with experts representatives of Chambers of commerce and industry to the Empowered Committee
5	November 2007	Report of Joint Working Group discussed in the meeting of Empowered Committee and final report made after some changes
6	April 2008	Views of Empowered Committee was sent to Government of India
7	December 2008	Comments received by Empowered Committee from Government of India and committee was made to consider these comments
8	January 2009	Joint working group was made to submit recommendation of structure of GST
9	October 2009	Discussion about compensation of CST loss to states between Finance Minister and Empowered Committee
10	November 2009	First discussion paper released by Empowered Committee
11	December 2009	Report of Task Force on GST constituted by 13 th finance Commission
12	March 2011	Constitution Amendment Bill was placed before Lok Sabha
13	2011	Information Technology Platform has been created at pilot scale by an independent agency for processing of transactions and tax returns under GST
14	2011	Model legislation for CGST and SGST is being prepared
15	February 2013	Discussion between Union Finance Minister and State finance ministers about compensation of loss
16	Dec 2014	Constitution amendment bill placed in Lok Sabha
17	May 2015	Passed by Lok Sabha
18	May 2015	Send to Parliamentary Committee for review by Rajya Sabha
19	August 2016	Passed by Rajya Sabha and Lok Sabha
20	September 2016	Passed by two third majority of States and bill sent to the President for approval
21	October 2016	Two meetings of council in which consent is made over assessment procedures etc.
22	November 2016	Meeting of GST council held and reached on consent over rate, procedure etc.
23	December 2016	Fifth meeting of GST council held.
24	January 2017	Discussion on cross empowerment over assesses and implementation date.
25	Feb 2017	Compensation bill was discussed and approved in the council meeting.
26	March 2017	Four bills were approved by the Council in the 11 th and 12 th meeting.
27	May 2017	Decision about inclusion of goods and services in five categories. Goods and services are decided in this two days meeting.
28	June 2017	Three meetings were conducted in which rates were finalized.
29	July 2017	Implemented on July 1, 2017.

Source: Compiled from various notifications of CBEC.

Analysis

From the above discussion it is clear that GST crosses a long path before implementation on July 1, 2017. This journey is

unique as it takes years to pass in the Parliaments. This discussion is also in line with the outcome of the research paper authorized by Anushuya and Narwal, 2014 in which

they said that Indian taxes have a tendency to implement gradually. It is also evident from the discussion that implementation is too quick to digest and adverse outcomes can be seen with quick changing of tax slabs of items, relaxation in the filing of the returns and various opposes from the traders and shopkeepers in every state of the country.

What can be learnt from the implementation experience of Indian GST?

It is a well saying that everything teaches you something and same is correct about GST implementation in India. Following are some learning suggestions from it.

- Prepare well-structured and researched draft.
- Provide proper time to discuss it along with proper awareness programs which motivates peoples to participate in this discussion especially those who are going to affected it mostly.
- Provide proper time at least six months to understand the final law to the taxpayers.
- Always ready with proper and well-tested IT infrastructure at the time of implementation any tax law.
- Awareness programs should be conducted at various levels such as draft level, pre- implementation and post-implementation level in order to have proper understanding of changes in the country law to the taxpayers.

Conclusion

Indian GST has passed a long journey of nine years for the implementation. The necessity of GST in Indian Indirect Tax System was recognized by the Jha Committee in 1976. Since then effort were made to introduce it in India and first success was found with the implementation of MANVAT at central level. This tax was further reformed at central level to come to near ideal GST. In the line of ideal GST, VAT was introduced at state-level in 2003. Thus India has VAT at both level center and state in 2007 when all states have implemented state-VAT. In a federal system, dual GST is practically sound and India has it. After some time, a need to synchronize these VAT to reach ideal one was emerged and GST came into scenario in the budget speech of the Finance Minister in 2009. It was implemented on July 1, 2017. This reform has shaped itself into current one after passing various discussions by the tax experts, policy makers and industry etc. between introduction and implementation date. This Journey of Indian GST is quite interesting as it cannot be found its ideal shape till date. No doubt, seeing history of Indian reforms, it requires more patience and time to have that ideal shape.

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