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GST: The Game Changer in the Indian Taxation System

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Abstract:

The introduction of the Goods and Services Tax (GST) is a very bold step in the field of indirect tax reforms in India. By merging a large number of Central and State taxes into a single tax, GST will mitigate ill effects of passing or double taxation in a major way and pave the way for a common national market. From the consumers' point of view, the biggest gain would be in terms of reduction in the overall tax burden on goods, which is currently estimated to be around 26%-30%. It would also imply that the actual burden of indirect taxes on goods and services would be much more transparent to the consumer. Introduction of GST would also make Indian products competitive in the domestic and international markets owing to the full neutralization of input taxes across the value chain of production and distribution. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer. It would also encourage a shift from the informal to formal economy.

What the future holds for India's tax system and relations between the Union and the States is something which the Indian political system shall decide over time. However the last word may not have been heard over GST and States, seeking to augment their resources may well seek changes in the law in the not too distant future.

Though there are many problems and challenges for the smooth implementation of the GST it ushers a transparency to measure taxes levied on the product, bringing an end to the host of hidden and embedded taxes that were been paid so far. GST is expected to facilitate free flow of goods and services across the country and expected to add to India's GDP by 1 to 2%. Further reduction in double taxation will lead to confidence building of foreign investors thus giving a boost to Foreign Investment's in the country.

Key Words: Mitigate Tax Burden, Tax Evaders, New Taxation Regime, Transparency, Double Taxation, Resources, and Entrepreneurs.

Introduction:

GST, which is expected to transform the indirect taxation system in the country came into effect from 1st July 2017.GST will be administered both by the Central and the State Governments. The biggest tax reform since 1947, GST will pave the way for realization of the goal of One Nation-One Tax. GST will benefit all stakeholders viz.., the end consumer, industries both medium, small and large scale, and the government. Under the GST regime exports will be zero rated and is largely technology driven and will therefore reduce the human interface to a great extent. One of the major advantages of GST is the constitution of GST council. The council is tasked to make recommendations to the Union and the States relating to laws, rules and rates.

The Constitution of GST Council:

- Chairman: Central Finance Minister.
- Vice-Chairman: To be chosen amongst the ministers of State Government.
- Members: MOS (Finance) and all ministers of Finance/Taxation of each state.
- Quorum: 50% of total members.
- Weightage: 2/3rd State and 1/3rd Centre.

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- Decision: 75% majority.

Important Features of GST:

- The principle of GST is value added tax and either input tax method or subtraction method, which emphasis on voluntary compliance and accounts based system.
- Minimum number of Floor rates of taxes.
- A common law and procedures throughout the country under a single administration.
- Zero rating of exports and inter-state sales of goods and supply of services.
- No scope for levy of cess, resale tax, additional tax, turnover tax etc.
- GST is a destination based tax and levied at single point at the time of consumption of goods or services by the ultimate consumer.
- To Tax capital goods and inputs whether goods or services relatable to manufacture at lower rate, so as to reduce inventory carrying cost and cost of production.
- It is a comprehensive levy and collection on both goods and services at the same rate with benefit of input tax credit or subtraction of value of penultimate transaction value.
- Zero scope for multiple levies of tax on goods and services, such as sales tax, entry tax, octroi, entertainment tax and luxury tax.

Advantages of GST:

I) For the Government:

1. Will help to create a common national market for India, giving a boost to FDI's and Make in India campaign.
2. Will lessen the gravity for cascading of taxes as input tax credit will be available across goods and services at every stage of supply?
3. It will set common standards for laws, procedures and rates of taxes between Centre and States and across States.
4. Improved environment for actions as all returns are to be filed online input credits to be verified immediately online, encouraging more paper trial of transactions at each level of supply chain.
5. Similar uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighboring states and that between intra and inter-state sales.

II) For the Trade and Industry:

1. Very Simple tax system with fewer exemptions.
2. Very ease of doing business.
3. Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments etc.
4. Elimination of double taxation on certain sectors like works contract, software, and hospitality sector.

III) For the consumers:

1. Final price of goods is expected to be pellucid due to the seamless flow of input tax credit between the manufacturer, retailer and service provider.
2. Reduction in prices of commodities and goods in long run due to reduction in cascading impact of taxation.
3. Poverty eradication by generating more employment and more financial resources.
4. Relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under the compounding scheme.

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IV) For the States:

1. Expansion of the tax base as they will be able to tax the entire supply chain from manufacturing to retail.
2. Power to tax services which was hitherto with the central government only, will boost revenue and give states access to the fastest growing sector of the economy.
3. GST being destination based consumption tax will favour consuming states.
4. Improve the overall investment climate in the country which will benefit the development of the states.

Challenges under GST:

GST has been called a "Dream Tax" for its far reaching impact on businesses, manufacturers, traders and service providers across the country have been placed under one unified tax umbrella, and no longer need to work with distinct type of taxes previously been complied with. This is surely to be considered as the biggest tax reform undertaken by the Indian government in 70 years coining the concept of One Nation-One Tax–One Market. However it is to be noted that every new laws certainly has many disadvantages. Some of the challenges being faced are as follows:

- Information Technology Preparedness and Infrastructure: GST is an IT driven law and it cannot be assured whether all the states and union territories are well equipped with infrastructure and human resources to embrace this law. Only States like Maharashtra, Gujarat and Karnataka have E-Governance Model and the rest will take time to adapt the environment. Today even in some states VAT returns are not filed electronically.
- Personnel Training: All officers of the government whether state , central or union territories and whether in VAT, Service Tax, excise or customs would have to learn GST laws and possible implications .GST law heavily banks on I T and hence proper training has to be given to the concerned officers for effective usage and implementation.
- New Registrants: GST is expected to bring many new participants who have been kept outside the purview of tax mainly due to exemptions and also since the taxable event is wider in scope in GST. Transition of existing registered assesses and registration of new assesses and resolving of migration issues is a big challenge.
- Transitional Issues: There are many new areas which have to be addressed as a part of transition to GST. There are concerns about registration, carry forward of credits, pending refunds review of contracts, pending assessments, job work transactions, treatment of stock in hand, filling of returns etc..,The need for smooth transition is imperative for success of GST.
- Pending Disputes: There are many disputes pending in the context of present indirect taxation laws (both at the centre and the state) which are at various stages. The Courts and the Tribunals are burdened with the pending cases. The government should work very hard to find ways to solve these disputes. A scheme like KAR VIVAD SAMADHAN scheme needs to be started which would enable the litigants to resolve pending matters under earlier laws.
- Management and Administration of Tax: There may be differences in the Cadre of Centre and State level officers. It is to be noted that presently Central Excise and Service Tax are headed by IRS (Indian Revenue Service) Officers and whereas the State Commercial Departments are managed by IAS Officers.
- Analysing the MIS reports that would be required after GST implementation.
- Transition requirements will be necessary.
- Thorough reading and interpretation of the GST laws to pre-empt the possible consequences on one's business.
- Assessing the manner and the quantum of input credit as available under GST.

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- Evaluation of the competitiveness and the demand for the products in the backdrop of the new GST rate structure to ensure that products are neither overpriced nor under-priced.
- Records and details are to be updated to the authorized date and necessary amendments to be made in records for meeting the requirements of the new law.
- Inventory check and proper recording.
- Development of IT infrastructure to support the GST requirements.

Conclusion:

The idea of moving towards GST was first raised by the then Union Finance Minister in his Budget speech for 2006-07. Initially, it was proposed that GST would be introduced from 1st April 2010.The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a roadmap and structure for GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, the EC released its First Discussion Paper (FDP) on the GST in November, 2009. This spelt out features of the proposed GST and has formed the basis for discussion between the Centre and the States so far.

It has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for modernization of tax administration -make it simpler and more transparent – and significant enhancement in voluntary compliance. We assume that implementation of GST will increase the GDP rate from 2%-2.5% due to elimination of dual cascading effect. This assumption is made because the Canadian experience is suggestive of the potential benefits to the Indian economy. The GST in Canada replaced the federal manufacturers' sales tax which was then levied at the rate of 13% and was similar in design and structure as the CENVAT in India. It is estimated that this replacement resulted in an increase in potential GDP by 1.4%, consisting of 0.9% increase in national income from higher factor productivity and 0.5% increase from a larger capital stock. On levying IGST the country can eliminate double taxation and also it is based on destination principle where only final consumer will pay the tax. Therefore, when the country import the goods it can earn more revenue by collection the tax and also consumer will get input tax credit (set off). At present, government of India is not able to meet the expected tax collection due to lack of transparency in the present tax structure. Therefore according to our results implementation of GST is very much required and GST rate should be fixed in such a way that they meet their target. Though, GST has already been implemented from 1st July 2017 a number of implementation issues related to IT systems, legal challenges, exports, return filing and reconciliations, passing on transition credit, anti-profiteering in GST etc. are being faced by field formations of States and CBEC. In the current set-up the aim is to ensure that all these challenges / feedback effectively reaches the Government and both short term and long term solutions are provided..

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