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Goods and services tax in India –its concept, challenges and opportunities

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ABSTRACT

Goods and Service Tax (herein after referred as 'GST') is a new revelation that is soon to make its appearance in Indian Indirect Tax Regime. *The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy.* Goods and Services Tax -- GST -- is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. In this paper we try to attempt to get detailed knowledge about GST , the reasons of introducing GST, know the challenges and threats in imposing GST, see the current status of GST in India, opportunities it will provide to economy, industry exporter, company and government and Shortcomings of GST. The analysis shows that GST is a necessary condition if the country has to go back to double digit GDP growth. GST is a better approach of charging tax on goods & service as problem which is present in the current indirect tax system can be avoided by adopting GST.*IT* 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. GST is an improvement over VAT & service tax but it is also having some flaws.

Introduction

The introduction of VAT was one of the major reforms in indirect taxes in India at state& central level. If that was major reform in indirect taxes then GST would be advancement over the current existing system of direct tax in India. An announcement was made by Shri P. Chidambaram, the then Union Finance Minister in the Central Budget (2007-2008) to the effect that GST would be introduced from April 1, 2010.

The Empowered Committee of State Finance Ministers decided to set up a Joint Working Group (May 10, 2007), This Joint Working Group, after intensive internal discussions as well as interaction with experts and representatives of Chambers of Commerce and Industry, submitted its report to the Empowered Committee (November 19, 2007).After certain modification and comments by government A dual GST model for the country has been proposed by the EC. This dual GST model has been accepted by centre. Under this model GST have two components viz. the Central GST to be levied and collected by the Centre and the State GST to be levied and collected by the respective States. Central Excise duty, additional excise duty, Service Tax, and additional duty of customs (equivalent to excise), State VAT, entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST.

Almost 150 countries have introduced GST in some form. It has been a part of the tax landscape in Europe for the past 50 years and is fast becoming the preferred form of indirect tax in the Asia Pacific region. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services.

GST rates of some countries are given below.

Country	Rate of GST
Australia	10%
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
Sweden	25%
India	20%
New Zealand	15%
Pakistan	17%

Goods and Services Tax (GST)

Goods and Services Tax -- GST -- is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level.

Through a tax credit mechanism, this tax is collected on value-added goods and services at each stage of sale or purchase in the supply chain.

Service provider or seller can claim input tax credit on tax which they had paid on purchasing of inputs or procuring of input service which are needed for producing final goods or services.

Tax paid can be claimed by the producer or seller as input tax credit, therefore there is a shifting of the entire burden by the seller or produced to final customer who can't get the benefit of input tax credit & cause increase in the price of goods & services.

Reasons of introducing GST

•Several indirect taxes at Central and State level
• Tax on tax in current Central Excise and State VAT mechanism

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•No harmony in rates of VAT on similar commodities from one State to another
•CENVAT credit & VAT input tax set-off not comprehensive due to restrictive provisions
• Break in credit chain in inter-State transactions
• Multiple taxes leading to complexity in compliance

Objectives of GST

1. To eliminate the cascading impact of taxes on production and distribution cost of goods and services.
2. To lower the multiplicity of taxes
3. To diminish the compliance cost & CST will be phased out.

Key features of GST

1. The GST have two components one levied by the Centre i.e. Centre GST and the other levied by the States i.e. States GST.
2. All transactions will be covered up in central & state GST except exempted goods & services.
3. The Central GST and State GST are to be paid to the accounts of the Centre and the States separately.
4. Since the Central GST and State GST are to be treated separately, in general, 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
5. only against the payment of Central GST. The same principle will be applicable for the State GST.
6. Cross utilisation of ITC (input tax credit) between the Central GST and the State GST would, in general, not be allowed.
7. Definition of taxable person, taxable event, changeability, a measure of levy etc. would be same in CGST & SGST.
8. The taxpayer would need to submit periodical returns to both the Central GST authority and to the concerned State GST authorities.
9. A two-rate structure –a lower rate for necessary items and items of basic importance and a Standard rate for goods in general
10. Each taxpayer would be allotted a PAN linked taxpayer identification number with a total of 13/15 digits which would facilitating data exchange.

Justification of GST

The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and integrate integrate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance. In the GST, both the cascading effects of CENVAT and service tax are

removed with set-off, and a constant chain of set-off from the original producer's point and service provider's point upto the retailer's level is established which reduces the burden of all cascading effects. This is the real meaning of GST, and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. The GST at the State-level is, therefore, justified for-

(a) Additional power of levy of taxation of services for the States
(b) System of comprehensive set-off relief,
(c) Subsuming of several taxes in the GST
(d) Removal of burden of CST.

Rate structure under GST

A two-rate structure –a lower rate for necessary items and items of basic importance and a standard rate for goods in general in 'First Discussion Paper on GST'.

There will also be a special rate for precious metals and a list of exempted items. .

For taxation of services, there may be a single rate for both CGST and SGST.

The exact value of the SGST and CGST rates, including the rate for services, will be made known duly incourse of appropriate legislative actions.

Indirect taxes included under GST

The following indirect taxes from state and central level is going to integrated with GST

State taxes
1. VAT/Sales tax
2. Entertainment Tax (unless it is levied by local bodies)
3. Luxury tax
4. Taxes on lottery, betting and gambling.
5. State cesses and surcharges in so far as they relate to supply of goods and services.
6. Entry tax not on in lieu of octri.
7. Purchase tax (This is not sure still under discussion)

Central Taxes
1. Central Excise Duty.
2. Additional Excise Duty.
3. The Excise Duty levied under the medical and Toiletries Preparation Act
4. Service Tax.
5. Additional Customs Duty, commonly known as countervailing Duty (CVD)
6. Special Additional duty of customs- (SAD)
7. Surcharges
8. Cessess The above taxes dissolve under GST; instead only CGST & SGST exists.

Opportunities of GST

Economy

a) **Growth of the economy** -GST would broaden the tax base, promote common market across states and contribute significantly to the growth of the economy. 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.

b) **Reduces the corruption**- It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Service

c) Growth of revenue in states and union

The Company

a) **Reduce cost of company** -cost of the company would be lower as tax paid on inputs can be claimed by tax payer as input tax credit.

b) **An end to cascading effects** This will be the major contribution of GST for the business and commerce. At present, there are different state level and center level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

c) **One Point Single Tax** - Another feature that GST must hold is it should be 'one point taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the

d) consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

e) Appropriate focus on fostering efficiency

f) Ease of administration

Exporter– local, state & central taxes would be subsumed up & input tax credit can be claimed in GST so the overall cost to produce goods locally would be lower & competitiveness of exporter would be higher.

Industry –

Reduced cost of compliance -highest tax paid sector is manufacturing sector, due to GST multiple local, state & central taxes would be subsumed & overall burden of industry of taxes would be reduced & it will increase the competitiveness of industry, overall manufacturing cost of the industry would go down.

Benefits of GST

1.GST will make Indian trade and industry more competitive both domestically as well as internationally.

2.GST will Reduces average tax burdens .

3. GST will Eliminates the multiplicity of taxation

4. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

5.Uniformity of tax rates across the states.

6, It will lead to economic development of the country.

7.the taxation burden will be divided equitably between manufacturing and services, through a lower tax rate by increasing the tax base and minimizing exemptions.

8.It is expected to help build a transparent and corruption-free tax administration. GST will be is levied only at the destination point, and not at various points (from manufacturing to retail outlets).

Challenges

1.Nature of taxes to be included in GST- The taxes that are included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs etc. But there are numerous other states and union taxes that would be still out of GST.

2.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 taxrates 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.

3.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.

4.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.

Shortcomings of the proposed GST

The major shortcomings of GST -

a. Not using the correct accounting method may result in discrepancies in tax computation and compliance

b. Incorrectly claiming GST credits on bank fees

c. Incorrectly claiming GST credits on government charges -- such as land tax, council rates and water rates.

d. Incorrectly claiming a GST credit on the 'total cost' of a business insurance policy.

e. Not remitting GST on some government grants and incentives which are received inclusive of GST

f. GST is not paid on the sale of cars and equipment including the trade of motor vehicles.

g. Incorrectly claiming GST credits on wages and superannuation payments.

h. Incorrectly claiming GST credits on GST-free purchases such as basic food items, exports and some health services.

i. Claiming the entire GST credits on a car purchased for more than the luxury car limit.

j. Incorrectly claiming an upfront GST credit on assets financed through a commercial hire purchase (CHP).

k. Incorrectly claiming GST credits on payments for Yellow Pages advertising where the business chooses to pay for the cost of advertising by installments.

l. Claiming a GST credit when the business does not have a valid tax invoice at the time of lodging the Business Accounting Standards.

Current status of GST in India

Finance Minister of India P.chidambaram proposes national VAT or goods & services tax (GST) in Budget 2005-06.

In Introductory speech of Budget 2005-06, Finance Minister of India proposes that GST will be introduced from April 1, 2010. But Empowered committee of State Finance Ministers said that GST can't be implementing from April 1, 2010 & then after several new deadlines were set & everyone is missed till now.

For implementation of GST, bill have to be passed in both the houses which is not an easy task greatest A new life can be given to GST if constitution can be amended. it can be done only if two- third majority in parliament passed it.

In the current scenario, If the new central government or new finance minister Arun Jaitely decided to implement GST and make the change in the bill it will be further delayed because the new government will also have to repeat the same process of tabling the bill in parliament for a standing committee consideration.

Conclusion

It is now well-recognized and understood that the GST is a necessary condition if the country has to go back to double digit GDP growth. It is hence of utmost importance that the GST that is to be introduced is well thought-out and is introduced only upon the Central Government and the State Governments being fully and completely ready and prepared.

GST is a better approach of charging tax on goods & service as problem which is present in the current indirect tax system can be avoided by adopting GST. Cascading effect & tax evasion, distortion which is the biggest problem in India can be minimized by implementing GST

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.

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.GST is an improvement over VAT & service tax but it is also having some flaws.

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