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GST IN INDIA: FEATURES AND CHALLENGES

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Abstract

GST or Goods and Services Tax, the greatest tax reform in India since independence which has been long pending. GST is meant to simplify the indirect tax regime of India by replacing a host of taxes by a single unified tax. GST is the only indirect tax that directly connects all the sector of Indian economy thus enhancing the economic growth of the country by creating a single unified market. More than 160 countries of the world have implemented GST so far followed by France. The idea of GST in India was proposed by AtalBihari Vajpayee in 1999 and a committee was set up under the leadership of Asim Das Gupta the then finance minister of West Bengal. It was supposed to be implemented from 1st April 2010 under flagship of P Chidambaram the then finance minister of UPA government but due to political issues and conflicting interests of various stakeholders it did not came into force. In May 2016 the constitutional amendment bill for GST was passed by LokSabha and deadline of 1st April 2017 to implement GST was set by ArunJaitley the finance minister of India. However, there is a huge outcry against its implementation. This paper presents an overview of GST concept, advantages and explains its features along with focused in challenges faced by India in execution.

Keywords: Goods and services Tax, Features and Challenges, SGST, CGST,IGST

Research Methodology :

An explanatory research is studied based on secondary data collected from various journals, books, government reports, articles and newspapers which focus on different aspects of Goods and Services Tax.

Objective Of Study :

1. To grasp the concept of GST
2. To study and understand the features of GST
3. To assess the advantages and challenges in implementation of GST

Introduction :

"The goods and services tax law in India is a comprehensive, multi-stage, destination-based tax that is levied on every value addition". Taxation policy plays a very crucial role on the economy of a country. The main source of revenue of the government comes from the taxes levied on the citizens who can be direct or indirect. When the impact and incidence falls on same person it is called as direct tax and when the impact and incidence falls on two different people i.e. the burden can be shifted to any other person it is called as indirect tax. Before the introduction of GST India had a complicated indirect tax system with multiple taxes imposed by union and state separately, with the introduction of GST all the indirect taxes will be under an umbrella and ensuring a smooth national market with high economic growth rate. GST is a single point tax levied on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stages on value addition, thus making GST an essential tax only on value addition at each stage which ensures that there is no cascading of taxes . GST will reduce the overall tax burden of customer which is currently estimated at 25-30%. The Goods and services tax or GST which is popular as what it is all over the world was first introduced in France in the year 1954 and subsequently more than 160 countries had implemented the GST law like Germany, Italy, UK, South Korea, Japan, Canada, Australia, etc. Most of the countries had adopted unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed both by central as well as by state government. India had adopted the dual system of GST as CGST and SGST. The idea of GST in India was proposed by Atal Bihari Vajpayee in 1999 and a committee was set up under the leadership of Asim Das Gupta the then finance minister of West Bengal to design a GST model. In May 2016 the constitutional amendment bill for GST was passed by Lok Sabha and deadline of 1st April 2017 to implement GST was set by Arun Jaitley the finance minister of India. Finally the goods and service tax was launched at midnight on 1st July 2017 by the president of India, Pranab Mukherjee and Prime minister of India, Narendra Modi. Experts have enlisted the benefits of GST as under:

- It would introduce "one country one tax"
- It would absorb all the indirect taxes at the central and state level thus eliminating the cascading effect of tax
- It would bring down the prices of goods and services which in turn will help the companies as consumption will increase
- Higher threshold for registration which will exempts many small traders and service providers.

- In the GST system, when all the taxes are integrated it would eliminate the number of compliances like return filling
- It would help to eliminate the separate tax imposition on goods and services which requires the transaction to split its value among goods and services leading to greater complications
- It would wider the tax regime by covering all the sectors including the unorganized sectors thus widening the tax base. This would lead to better and more revenue collection by the government.

Concept of Goods And Services Tax :

GST or Goods and Services Tax, the greatest tax reform in India since Independence which has been long pending. GST is meant to simplify the indirect tax regime of India by replacing a host of taxes by a single unified tax. GST is a comprehensive, multi-stage, destination-based tax that is levied on every value addition. GST will bring a new dimension to the Indian economy by making a common market and reducing the cascading effect of tax on the cost of goods and services. It will affect the entire indirect tax system the tax structure, tax incidence, tax computation, compliance, input credit utilization and reporting procedures. India had adopted the dual system of GST as CGST and SGST. The need for a concurrent dual GST model is based on the following:

1. As per constitution of India concurrent power to levy tax on domestic goods and services is provided to both central and state government
2. As per the dual GST model tax can be levied independently by the central and state government but both will operate in common platform for imposition of taxes, liabilities would be identical

SGST

SGST means State Goods and Service Tax, one of the three categories under Goods and Service Tax (CGST, IGST and SGST) with a concept of one tax one nation. SGST falls under State Goods and Service Tax Act 2016. For easy understanding, when SGST is being introduced, the present state taxes of State Sales Tax, VAT, Luxury Tax, Entertainment tax (unless it is levied by the local bodies), Taxes on lottery, betting and gambling, Entry tax not in lieu of Octroi, State Cesses and Surcharges in so far as they relate to supply of goods and services etc. are subsumed.

CGST

Under GST, CGST is a tax levied on Intra State supplies of both goods and services by the Central Government and will be governed by the CGST Act. SGST will also be levied on the same Intra State supply but will be governed by the State Government.This implies that both the Central and the State governments will agree on combining their levies with an appropriate proportion for revenue sharing between them. However, it is clearly mentioned in Section 8 of the GST Act that the taxes be levied on all Intra-State supplies of goods and/or services but the rate of tax shall not be exceeding 14%, each.

IGST

Under GST, IGST is a tax levied on all Inter-State supplies of goods and/or services and will be governed by the IGST Act. IGST will be applicable on any supply of goods and/or services in both cases of import into India and export from India.

Note: Under IGST,
-Exports would be zero-rated.
-Tax will be shared between the Central and State Government.

Silent features of GST :

1. All transactions on goods and services will be covered up except exempted goods and services
2. There are two segments of GST, one is central GST and other is state GST. Central GST will be paid to central government and state GST will be paid to respective state government
3. Meaning of taxable person, taxable events, chargeability, measure to levy tax, etc would be same in CGST and SGST
4. Administration of CGST will be controlled by central government and administration of SGST will be controlled by respective state government. The power of making law on taxation of goods and services lies with both central and state government. A law imposed by central government on GST will not overrule state GST law.
5. Pan card based identification number would be allotted to the taxpayer to facilitate tax payment and return
6. Tax return to be filled separately to central government for CGST and state government for SGST.
7. Input credit can be claimed from respective department where GST paid, i.e. central GST paid on inputs can be claimed against central GST only and same for state
8. GST would be applicable if there is an import of goods and services
9. The GST slabs have been set at 0%,5%,12%,18% and 28% for different goods and services

10. Integrated goods and services tax(IGST) also known as interstate goods and services tax is a component of GST which is charged on supply of goods and services in the course of interstate trade which is collected by central government and distributed to imported states as destination based tax. Additional 1% tax on interstate supply of goods which is levied by central government and directly apportion to the exporter state. This tax will be charged for a period of two years or more as per the recommendation of GST council

Challenges :

Wall Street firm Goldman Sachs, in a note „India: Q and A on GST-Growth Impact Could Be Muted, has put out estimates that show that the Modi governments model for the Goods and Services Tax(GST) will not raise growth, will push up consumer prices inflation and may not result in increased tax revenue collections .

There appears to be certain principle loopholes in the GST model imposed by the union government which may be ineffective in delivering the desired result.

1. The principle ideology behind implementation of GST-one country one tax is not suitable for India. Previously there were 32 taxes which include service tax, excise duty, sale tax and 29 state VAT taxes and after implementation of GST it comes to 31 taxes which include IGST, CGST and 29 SGST which again bear complicated tax structure in the country and rebuts the principle of one country one tax.

2. Another principle ideology behind implementation of GST-one rate of tax is not possible in India due to, According to the 101st amendment in the constitution, Article 246 A states that parliament and legislative assembly can impose taxes on goods and services. Hence not only union government but also state government had power to have own GST rate.Article 279 A of the constitution states that GST council has only recommendatory powers, now its up to state government to levy its own GST rate and distorts the entire GST uniformity rate system of the country.

3. Government had incorporated goods and services tax network(GSTN), which is responsible for developing GST portal to ensure services like GST registration, GST return filling, IGST settlement, etc. which requires robust IT network. It is widely known that India is in an embryonic stage as far as IT network connectivity is concerned.

4. Trained and skilled man power with updated GST subject knowledge are not easily available, this had created an additional work load on professionals across industry.

5. The Indian insurance market is not so developed as less than 10% of the population has insurance. This was the reason behind the government initiative, Pradhan Mantri Jeevan Bema Yojna" however with the implementation of GST insurance premiums have become expensive by 300

basis points which will become difficult for insurance companies to penetrate the market and would work as an unfavorable factor against insurance awareness schemes. The government initiative , PradhanMantri Jan Dhan Yojna‟ initiated that every citizen of have a bank account will face difficulties as the tax on financial services had raised by 3% in the new goods and services tax regime.

6. The telecommunication sector assumes a serious problem as on the one hand the government is initiating digital India and on the other hand telecom services is getting costlier as telecom services will attract GST tax rate of 18% which is 3% higher than the previous service tax rate, even when Indias rural teledensity is not even 60%.

7. The GST administration intends to keep petroleum products out of the ambit of GST, being petroleum products have been a major contributor of inflation in India.

8. Small traders are confused with the GST tax rate application and increasing cost of operations, as they are unable to afford the cost of computer and accounting staff for maintenance of record and filling of returns under GST.

Suggestions

1) Reduction in Number of Tax Slabs Rates

To begin with let's talk about drastic changes in tax rates that are bothering the taxpayers. There is an invariable need to put a halt on the changes in tax rates and decide the rate structure that is static for a few years. Adding on to that increasing the tax rates is not an ideal solution for grabbing more revenue especially in the era of an economic slowdown. In short, there is a need for a simplified tax structure of only three tax slabs. Either we need to merge 12% & 18% or 5% & 12% slabs into one.

2) Effortless Input Tax Credit Claims

An urgent restoration of the **Input Tax Credit system** is indeed an invariable requirement. GST on all the businesses should be seen as setoff in line with global practices. And if restrictions on credit is not possible then the denial of say 5% of total input taxes should be made an option for the taxpayers without there being an urgent need for detailed expense analysis.

3) Spreading the GST Net

There is still a huge crowd away from paying GST (Goods and Services Tax) keeping the fact as their primary concern, the GST council meeting should find out ways to bring in real estate, petroleum and electricity sectors under its umbrella. The GST net could be expanded gradually starting from industrial fuels like Aviation Turbine Fuel (ATF) and natural gas.

4) Renovating ITC System

Restriction on cash flow in the market has adversely affected businesses. The ITC that is acquired at the state level by several businesses is subject to tax payment in some other state. At central GST, a national pool has to be considered in addition to allowing an offset against income tax. An excess amount in input tax can be dispersed as a refund to the taxpayers.

5)Practical Targets for GST Collection

As per the government's data, monthly GST collection is a little more than Rs. 1 lakh crore in the current financial year and therefore the revenue target is missed by large numbers. Revenue collection is important but it cannot define the spontaneity of the GST system which totally depends on the smooth function of businesses and widened tax base.Hope is revived with the commencement of new e-invoicing under GST practice which will allow real-time tracking of ITC claimed by a business based on invoices of B2B transactions.

6) Including Some Exempted Goods In GST Regime:

Some goods & services like electricity, real estate, and petroleum are out of GST structure. As they are out of GST bracket, the input tax credit benefits cannot be utilized by the segments involved in the process and so it is a loss for them. In addition, these sectors are out of the indirect tax system at the mercy of state government. Some sectors such as oil and gas are demanding to be included in the GST. Even experts suggest that the right way to implement GST is to put all the sectors under the bracket of GST, but it would take some time to implement the required tweaks to the system.

7) Let E-waybill Go Away

The industry demands to let the GST e-way bill go, which is a digitally generated instrument to move the goods worth Rs. 50,000 or more. As GST Council has postponed the implementation of e-way until April 2018, the experts say the GST is a consumption tax so it doesn't require to add the movement of goods in the bracket of GST.Although, the council is silent on the suggestion and running a pilot regarding the e-way bill in Kolkata and expected to spread it in other states. The industry is well acknowledged with the fact that when the **e-way bill** will be uploaded to the GST network, it would create another technological hurdle after implementation.

Conclusion :

The Goods and Services Tax(GST) dominion is an unconcerned attempt by the government to justify the indirect tax structure of the country. The government should study in depth the GST mechanism set up by different countries around the globe and also their fallouts before implementation. No doubt GST had simplified the existing indirect tax system and helps to overcome the cascading effect of tax. The bill was introduced to implement one country one tax but resulted into a pitfall as the price of basic goods and services had gone upward, in spite of government demand for a positive change in the economy with a GDP growth rate of 6.3% in Q2 of 2017-18 as against 7.5% in the second quarter of last year. It is clear that the economy is slowing down due to unplanned implementation of GST thus the disruptions may have accelerated the decline. The only possible remedy for this disruption is to make the transition to GST simpler.

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Sincerely Yours

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