ROLE OF GOODS AND SERVICES TAX IN INDIA

Dr. Manisha Gupta
Astt. Professor, Jagran College of Arts
Science & Commerce

ABSTRACT

The Goods & Services Tax (GST) the biggest reform in India's indirect tax structure since the economy began to be opened up 25 yrs. ago at last looks set to become reality. The Goods & Service Tax Bill or GST Bill officially known as The Constitution Bill 2014, proposes a national Value-Added tax to be implemented in India from 1st April 2017. "Goods & Services Tax" would be a comprehensive indirect tax on manufacture, sale & consumption of goods & services throughout India to replace tax levied by Central and State Government. Goods & services tax would be levied & collected at each stage of sale or purchase of goods or services based on the Input Tax Credit Method. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage in terms of a tax reduction in the overall burden on goods, which is currently estimated at 25%-30%.

The Arvind Subramanian Panel has recommended a standard rate of 18 percent mostly applicable in goods and services while the "National Institute of Public Finance and Policy" (NIPFP) favours 23-25 percent. While GST is supposed to promote ease of doing business, the draft model law recommends a registration and tax returns structure which, it is feared will increase cost of compliance. Input tax credit is the lifeline of GST. The current model law makes it difficult for companies with multi-state operations to claim credit and makes a mockery of the GST ideal of a common market.

The Constitution (122^{nd} Amendment) Bill 2014, was introduced in the Lok Sabha by Finance Minister Arun Jaitley on 19 December 2014, and passed by the Lok Sabha on 6^{th} May 2015 & by the Rajya Sabha the bill was referred to a Select Committee on 14 May 2015. The Rajya Sabha

submitted its report on the bill on 22 July 2015. The bill was passed by the Rajya Sabha on 3 August 2016 and the amended bill was passed by the Lok Sabha on 8 August 2016.

Key words : Input Tax Credit Method, The Constitution Bill, Value-Added Tax, Levied, Enforcement.

INTRODUCTION

The Goods & Services Tax (GST) the biggest reform in India's indirect tax structure since the economy began to be opened up 25 yrs. ago at last looks set to become reality. The Goods & Service Tax Bill or GST Bill officially known as The Constitution Bill 2014, proposes a national Value-Added tax to be implemented in India from 1st April 2017. "Goods & Services Tax" would be a comprehensive indirect tax on manufacture, sale & consumption of goods & services throughout India to replace tax levied by Central and State Government. Goods & services tax would be levied & collected at each stage of sale or purchase of goods or services based on the Input Tax Credit Method. The simplicity of the tax should lead to easier administration and enforcement. From the consumer point of view, the biggest advantage in terms of a tax reduction in the overall burden on goods, which is currently estimated at 25%-30%.

The Arvind Subramanian Panel has recommended a standard rate of 18 percent mostly applicable in goods and services while the "National Institute of Public Finance and Policy" (NIPFP) favours 23-25 percent. While GST is supposed to promote ease of doing business, the draft model law recommends a registration and tax returns structure which, it is feared will increase cost of compliance. Input tax credit is the lifeline of GST. The current model law makes it difficult for companies with multi-state operations to claim credit and makes a mockery of the GST ideal of a common market.

The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST. The Central GST and State GST are to be paid to the accounts of the Centre and the States separately. It would have to be ensured the account-heads for all services and goods would have indication whether it relates to Central GST or State GST. Since the Central GST and State GST are to be treated separately, taxes paid against the State GST shall be allowed to be taken as Input Tax Credit (ITC) for the Central GST and could be utilized only against the payment of Central GST. Ideally, the problem related to credit on account of refund of GST should be avoided by both the Centre and the States except in the cases such as exports, purchase of capital goods, input tax at higher rate than output tax etc. A Uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST. The administration of the Central GST to the Centre and for State GST to the States would be given.

A uniform State GST threshold across States is desirable and, therefore, it is considered that a threshold of gross annual turnover of Rs. 20 lakh both for goods and services for all the States and Union Territories may be adopted with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States). Keeping in view the interest of small traders and small scale industries and to avoid dual control, the States also considered that the threshold for Central GST for goods may be kept at Rs. 1.5 crore.

A proposal to introduce a national-level Goods and Services Tax (GST) by April 1, 2010 was first mooted in the Budget Speech for the financial year 2006-07. Since the proposal involved reform/restructuring of not only indirect taxes levied by the Centre but also the States, the responsibility of preparing a Design and Road Map for the implementation of GST was assigned to the Empowered Committee of State Finance Ministers (EC). In April, 2008, the EC submitted a report, titled "A Model and Road map for Goods and Services Tax (GST) in India" containing broad recommendations about the structure and design of GST. In response to the report, the Department of Revenue made some suggestions to be incorporated in the design and structure of proposed GST bill.

A dual GST module 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 would be subsumed within GST. Other taxes which will be subsumed with GST are Octroi, entry tax and luxury tax thus making it a single indirect tax in India.

Review of Literature

Chaurasia et.al.(2016)conducted a research based study on role of good and service tax in the growth of Indian economy.They found that GST is helpful for the development of Indian economy as well it will be very much helpful in improving the GDP of the country more than 2 percent.They stated that the unified tax will comprise of a central GST and a state GST. They used secondary data and took GST as direct variable and GDP as indirect variable.

Kiyawat and Kiyawat,(2015)studied the role of the goods and service tax in development of Indian economy.They found that after the implementation of GST it will be likely to improve tax collections and boost India's economic development. The dealers might pass on the benefits of the reduced tax to consumer's as the prices are expected to fall in the long run.

Care,(2016)examined the impact of proposed Goods and Service tax on Indian logistic industry.The industry was primarily categorized into four segments comprising of transportation, warehousing,freight forwarding and value added logistics. It was founded that the implementation of GST would help the logistic industry in improving the operational efficiency thus cutting the logistic cost and expanding the business prospects through consolidation of logistic players.

Rahul Bajaj,(2012)told that the most important reform,whether it is for our group,for India generally,or for most businesses will be the goods and services tax. It will add about two percentage points to India's GDP growth.

ASSOCHAM,(2015)proposed a article on role of goods and service tax in India.They said that the global spread of GST reinforces the success of VAT system of indirect tax over any other form of taxation.As India steping towards this regime,a no of key expectations surround economic development,Growth in international trade, moderate taxes, stability in prices etc.It will become very beneficial for its follower.

Pinki, Kamma and Verma (July 2014) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government , state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.
Nitin Kumar (2014)studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

Dr. R. Vasanthagopal (2011) studied,"GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 130 countries in world and a new preferred form of indirect tax system in Asia also.

Ehtisham Ahmed and Satya Poddar (2009)studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simplier and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST.

History

States and union territories of India that have ratified the Goods and Services Tax Bill. The only union territories with the power to ratify the bill are Delhi and Puducherry. An empowered committee was set up by Shri Atal Bihari Vajpayee government in 2000 to streamline The GST model to be adopted and to develop the required backend infrastructure that would be needed for its implementation.

In his budget speech on 28 February 2006. P Chidambaram, the Finance Minister, announced the target date for implementation of GST to be 1 April 2010 and formed another empowered committee of State Finance Ministers to design the roadmap. The committee submitted its report to the government in April 2008 and released its First Discussion Paper on GST in India in 2009.

The Constitution (122nd Amendment) Bill, 2014 was introduced in the Lok Sabha by Finance Minister Arun Jaitley on 19 December 2014, and passed by the House on 6 May 2015. In the Rajya Sabha, the bill was referred to a Select Committee on 14 May 2015. The Select Committee of the Rajya Sabha submitted its report on the bill on 22 July 2015. The bill was passed by the Rajya Sabha on 3 August 2016, and the amended bill was passed by the Lok Sabha on 8 August 2016.

The bill, after ratification by the States, received assent from President Pranab Mukherjee on 8 September 2016. and was notified in The Gazette of India on the same date.

RATIFICATION

The Act was passed in accordance with the provisions of Article 368 of the Constitution, and has been ratified by more than half of the State Legislatures, as required under Clause (2) of the article. On 12 August 2016, Assam became the first state to ratify the bill, when the Assam Legislative Assembly approved it State Legislatures that ratified the amendment are listed below.

S.No.	State	Date of implementation of GST
1	Assam	12 August
2	Bihar	16 August
3	Jharkhand	17 August
4	Himachal Pradesh	22 August
5	Chhattisgarh	22 August

6	Gujarat	23 August
7	Madhya Pradesh	24 August
8	Delhi	24 August
9	Nagaland	26 August
10	Maharashtra	29 August
11	Haryana	29 August
12	Telangana	30 August
13	Sikkim	30 August
14	Mizoram	30 August)
15	Goa	31 August
16	Odisha	1 September
17	Puducherry	2 September
18	Rajasthan	2 September
19	Andhra Pradesh	8 September
20	Arunachal Pradesh	8 September
21	Meghalaya	9 September
22	Punjab	12 September
23	Tripura	26 September

State legislatures did not ratified the amendment

Jammu and Kashmir Karnataka, Kerala, Manipur, Tamil Nadu, Uttar Pradesh, Uttarakhand, West Bengal.

2. Progress of GST :

The whole story of GST can be traced in the following manner –

Year 2006-07

- Union Finance Minister P. Chidambaram proposes introduction of GST from April 1, 2010.

Year 2007

- Empowered committee of state finance ministers constitutes joint working group.
- Phasing out of CST (Central Sales Tax) began from April 2007 with the reduction in CST rate from 4% to 3%.

Year 2008

- Broad GST structure was decided : Central and State GST.
- CST rate further reduced from 3 percent to 2 percent.

Year 2009

- First discussion paper on GST released by Empowered Committee.
- 13th Finance Commission releases report on GST in December.

Year 2011

- 'Constitution Amendment Bill' tabled in Parliament.

Year 2013

- Empowered Committee rejects Centre's proposal to include petroleum products under GST.
- Standing committee on finance tables report on GST Bill.

Year 2014

- 'Revised Constitution Amendment Bill' tabled in Parliament.

Year 2015

- 'Constitutions Amendment Bill' passed in Lok Sabha on May 6, 2015.
- In October 2015, Empowered Committee releases broad contours of model GST law.

July 26, 2016

- The Government agrees on two amendments to do away with the 1 percent inter-state surcharge, center to compensate revenue losses for five years.

3. Need of GST :

(i) As a business have evolved, taxation lines between the central & the state have blurred, leading to double taxation and litigations.
(ii) Multiplicity of taxes & their non-creditable nature has a cascading effect.
(iii) Massive disparities in the rate of taxes levied by states.
(iv) State VAT laws were designed for uniform application but they have amended their laws leading to multiple compliance requirements.
(v) The current tax system is origin based, not destination based like GST.

(4) Meaning of GST

The Goods and Services tax is an indirect tax to be levied when a consumer buys a good or a service. It is intended to replace all indirect taxes that you currently pay. Today, apart from the central excise duty or service tax, there are indirect taxes levied at multiple points on every product or service –VAT/ sales tax, octroi, luxury tax.

It has been long pending issue to streamline all the different types of indirect taxes and implement a "single taxation" system. This system is called as GST (GST is the abbreviated form of Goods & Services Tax). The main expectation from this system is to abolish all indirect taxes and only GST would be levied. As the name suggested, the GST will be levied both on Goods and Services. "GST" was first introduced during 2007-08 budget session On 17th December 2014, the current Union Cabinet ministry approved the proposal for introduction GST Constitutional Amendment Bill On 19th of December 2014, the bill was presented on GST in Loksabha. The Bill will be tabled and taken up for discussion during the coming Budget session. The current central government is very determined to implement GST Constitutional Amendment Bill.

GST is a tax that we need to pay on supply of goods & services any person, who is providing or supplying goods and services is liable to charge GST.

If the GST Bill becomes law, all the above taxes would now be come under a single GST tax rate. But the final rate is yet to be decided, it is expected to be in the range of 15-18 per cent. In order to bring in GST, a constitutional amendment is needed – with approvals from both the houses of

Parliament. The GST Constitutional Amendment Bill, which incorporates the provisions of the GST, was passed in the Lok Sabha and the Rajya Sabha. It will be implemented April 1, 2017.

(5) Application of GST

GST is a consumption based tax/levy. It is based on the "Destination principle." GST is applied on goods and services at the place where final/actual consumption happens.

GST is collected on Value-added goods and services at each stage of purchase in the supply chain. GST paid on the procurement of good services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.

The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system.

Indian Government is opting for Dual System GST. This system will have to components which will be known as :-

Central Goods and Service Tax (CGST) and State Goods and Service Tax (SGST)

The current taxes like Excise duties, service tax, custom duty etc will be merged under CGST.

The taxes like sales tax, entertainment tax, VAT and other state taxes will be included in SGST.

How is GST Levied? GST will be levied lived on the place of consumption of Goods and services. It can be levied on :

(a) Intra-state supply and consumption of goods & services
(b) Inter-state movement of goods
(c) Import of Goods & Services

(6) Impact of Ideal GST :

(I) It will make India a common market facilitating movement of goods from one state to another.

(ii) Nearly a quarter of the transit time is spent at check posts, state borders, entrances of cities and other regulatory stoppages. It is one of the most citied causes for freight delays is inefficiencies in customs and state borders checkpost.

(iii) It will load to simplified tax regime, making compliance easier.

(iv) With the introduction of GST inputs credits will reduce production costs.

(v) There will no cascading effects.

(vi) It will widen the tax base and increases the collection of revenue.

(7) Problem in the Present Tax Structure

Present structure is marked with following problems:

1. Multiplicity of Taxes

Presently, the Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Further, it empowers the State Governments to levy sales tax or Value Added Tax (VAT) on the sale of goods. This exclusive division of taxes has led to a multiplicity of indirect taxes in the country. In addition, Central Sales Tax (CST) is levied on inter-State sale of goods by the Central Government, but collected and retained by the exporting States. Further, many States levy an entry tax on the entry of goods in local areas. Taxes by Union Government, State Governments and the local governments have resulted in difficulties and harassment to the tax payer. He has to contact several authorities and maintain separate records for each of them.

2. Complex

The taxes are levied by central government as well as state government. So, a person has to maintain accounts which will comply all the applicable laws. This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that it helps in increasing the hidden cost for the trade and industry.

3. Cascading effects of taxes

In current indirect tax structure in India, there is cascading of taxes due to 'tax on tax'. No credit of excise duty and service tax paid at the stage of manufacture is available to the traders while paying the State level sales tax or VAT, and vice versa. Further, no credit of State taxes pain in one State can be availed in other States. Hence, the prices of goods and services get artificially inflated to the extent of this 'tax on tax'.

4. Multiple Compliance

A business person might have to comply with multiple compliance in terms of indirect taxes in India. Certain major compliance in different states with different set of laws is as under:

S. No.	State	Due date of Filing Return	Due date of Payment of Tax
1	Karnataka VAT	Monthly	20 days
2	Assam VAT	Monthly	21 days
3	Tamil Nadu VAT	Monthly	20 days
4	U P VAT	Monthly	20 days
5	Andhra Pradesh VAT	Monthly	20 days 15 days
6	Kerala VAT	Monthly	15 days
7	Gujarat VAT	Monthly	30 days 22 days
8	Maharashtra VAT	Monthly	30 days from half year 30 days
9	Delhi VAT	Monthly	25 days
10	M.P. VAT	Quarter	30th of month following qtr. up to 10th of following month
11	Rajasthan VAT	Quarter	30th of month following qtr. up to 14th of following month.
12	W.B VAT	Quarter	30th or 31st of month following qtr 30th or 31st of month following qtr.
13	Tripura VAT	Quarter	1 month from end of Relevant Qtr I month from end of Relevant Qtr.
14	Himanchal Pradesh VAT	Quarter	30th of Expiry of each Qtr 10 days before expiry of Return filing

5. Tax Arbitrage

The problem of tax arbitrage for a single nation possess invisible barrier to free trade. It many cases, a small difference in rate of tax can result in manifold implications and thus, can induce the business to move into a lower tax territory. As an example, the different rate of VAT as levied on sale of goods in different states is as under :-

S. No.	State	VAT Rate in Percentage	
		Essential goods	General rate
1	Andhra Pradesh	4.00	14.50
2	Assam	5.00	13.50
3	Bihar	4.00	12.50
4	Chandigarh	5.00	12 50
5	Gujarat	5.00	15.00
6	Haryana	5.25	13.125
7	Himachal Pradesh	5.00	13.75
8	Karnataka	5.00	13.50
9	Kerala	4.04	12.625
10	Madhya Pradesh	5.00	13.00
11	Maharashtra	5.00	12.50
12	New Delhi	5.00	12.50
13	Rajasthan	5.00	14.00
14	Tamil Nadu	4.00	12.50
15	Tripura	4.00	12.50
16	Uttar Pradesh	5.00	13.50
17	Uttranchal	4.50	13.50
18	West Bengal	4.00	13.50

(8) Problems associated with GST

1. The GST creates one national tax to replace a slew of complex ones that differ from state to state.
2. The rate of the tax will not be decided for another few months.
3. GST will lower the prices of some goods like electronic items and two-wheelers. But services-eating out or using a beauty salon or plane tickets, for example, will become more expensive
4. The Lok Sabha cleared the GST proposal last year, In the Rajya Sabha, it had been stalled mainly by the opposition Congress, which wrote the original proposal when it was in power.
5. To win the Congress' backing, the Finance Minister held several rounds of discussions and agreed to changes sought by the Congress.
6. Given the scope of the new tax and its impact on state governments, “A larger political consensus is necessary... I am grateful to Leader of the Opposition Ghulam Nabi Azad,” said Mr Jaitley referring to the Congress' leader in the Rajya Sabha, acknowledging the support eventually extended by the Congress and other parties.
7. The proposal that will be cleared by the Rajya Sabha will amend the constitution to make GST a law. At least 15 of India's 29 state legislatures have to pass it too. Only then will the GST Council be created.
8. The council, which combines union ministers with representatives of all state governments, will then decide the rate of the tax 2/3 of voting power of the council is with states and 1/3 with the centre.
9. Separate legislation will be introduced for then clearing the tax rate along with other details of how the GST will be implemented.
10. The GST is a consumption tax States that manufacture goods therefore will lose revenue - the taxes they impose currently will be removed. The centre has agreed to compensate them for five years.

(9) Importance

GST is expected to help in a seamless flow of goods and services, unifying India into a single national market. This can improve 'ease of doing' business. The current taxation structure has created compartmentalization of markets due to many inter-State taxes which didn't qualify for credits. GST might simplify the taxation structure and remove distortions in allocation of resources.

Finance minister Arun Jaitley has said that having a **"one-nation-one-tax regime"** would provide a congenial business environment. It expects India's GDP growth rate to be boosted by 1-2 per cent over the long-term due to GST.

(10) Benefits of GST

(I) goods and services tax will replace most indirect taxes levied by the centre and estates.

(ii) It will be a dual tax, a centre GST and a state GST. Centre to levy CGST and the state to levy SGST.

(iii) Central taxes include central excise duty, additional excise duty, service tax additional custom duty and special additional duty.

(iv) Inter-state supplies with in India would attract an Integrated GST (I-GST-aggregate of CGST and SCST of the destination state). It will be levied by the centre.

(v) Alcohol, real estate, five petroleum products, electricity have been kept out of GST.

(vi) Tax collection will be done by GSTN (Goods and Services Tax Network).

(vii) Administration of GST will be responsibility of the GST council – consisting of union finance minister and state finance minister.

Conclusion

GST, being a consumption-based tax, states with higher consumption of goods and services will have better revenues So, the co-operation from state governments would be one of the key factors for the successful implementation of GST. Since GST replaces many cascading taxes, the common man may benefit after implementing it. But it all depends on 'what rate the GST is going to be fixed at?' Also, Small Traders (based on Annual Business turnover) may be exempted from it.

France was the first country to introduce this system in 1954. Nearly 140 countries are following this tax system GST could be the next biggest tax reform in India This reform could be a continuing process until it is fully evolved We need to wait few more months for more details on Goods & Services Tax system.

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