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Research Article

GST NEW TAX REGIME: ISSUES AND CHALLENGES

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GST: - Goods and Service Tax; VAT:- Value Added Tax; CGST :- Central Goods Service Tax ; SGST:- State Goods Service Tax; IGST:- Integrated Goods and Service Tax

ABSTRACT

The GST (Goods and Service Tax) is a Value added Tax (VAT) and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all indirect taxes levied on goods and services by the Indian Central and State governments. It is aimed at being comprehensive for most goods and services.
The 122nd Constitution Amendment Bill for Goods and Services Tax (GST) has been approved by The President of India post its passage in the Parliament (Rajya Sabha on 3 August 2016 and Lok Sabha on 8 August 2016) and ratification by more than 50 percent of state legislatures. The Government of India is committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by April 2017.
With GST, it is anticipated that the tax base will be wide -ranging, as virtually all goods and services will be taxable, with minimum exemptions.GST will be a game changing reform for the Indian economy by creating a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the tax structure, tax incidence, tax computation, tax payment, compliance, credit utilization and reporting, leading to a complete overhaul of the current indirect tax system.
GST will have a far-reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services, supply chain optimization, IT, accounting, and tax compliance systems.
Following are the objective of the research:

- Critically examine GST and its implementation
- Various issues and challenges related to GST

INTRODUCTION

The Backdrop of Bill

The Goods and Services Tax (GST) is said to replace all indirect taxes levied on goods and services by the Government, both Central and States, once it is implemented. The GST will consolidate all State economies. It will be one of the biggest taxation reforms to take place in India .The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. The GST will make a significant breakthrough paving way for an all-inclusive indirect tax reform in the country.

In the year 2000, for the first time the idea of initiating the GST was made by the then BJP Government under the leadership of Atal Behari Vajpayee. An empowered committee was also formed for that, headed by Asim Dasgupta (the then Finance Minister of the West Bengal Government). The committee was formed to design the model of the GST and at the same time inspect the preparation of the IT department for its rollout.

A brief chronological history of GST proposal outlining major developments over the years till it got passed in Raj Sabha and Lok Sabha in 2016.

Objectives of the study

The present study has following objectives

- Understanding the conceptual frame work of GST model.
- Examining the mechanism of GST structure.
- Critically examining the benefits and issues related to GST.

RESEARCH METHODOLOGY

This is a simple descriptive research, conceptual based study with secondary data used from Draft GST and IGST Model available on various tax department and finance ministry sites.

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Year	Development on GST
2003	• Kelkar task force on indirect tax suggested a comprehensive Goods and Services Tax (GST) based on VAT principle.
2006	• A proposal to introduce a National level Goods and Services Tax (GST) by April 1, 2010 was first debatabed in the Budget Speech for the financial year 2006-07. • As 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).
2009	• A Joint Working Group consisting of officers from Central as well as State Government was constituted in September, 2009 to take the GST work further. • Based on inputs from Govt of India and States, the EC released its First Discussion Paper on Goods and Services Tax in India in November, 2009.
2011	• In order to modify the Constitution to facilitate introduction of GST, the Constitution (115th Amendment) Bill was introduced in the Lok Sabha in March 2011. As per the prescribed procedure, the Bill was referred to the Standing Committee on Finance of the Parliament for examination and report.
2012	• In pursuance of the decision taken in a meeting between the Union Finance Minister and the Empowered Committee of State Finance Ministers on 8th November, 2012, a 'Committee on GST Design', consisting of the officials of the Government of India, State Governments and the Empowered Committee was constituted.
2013	• The Committee did a detailed discussion on GST design including the Constitution (115th) Amendment Bill and submitted its report in January, 2013. Based on this Report, the EC recommended certain changes in the Constitution Amendment Bill in their meeting at Bhubaneswar in January 2013. • The Empowered Committee in the Bhubaneswar meeting also decided to constitute three committees of officers to discuss and report on various aspects of GST as follows:- 1. Committee on Place of Supply Rules and Revenue Neutral Rates; 2. Committee on dual control, threshold and exemptions; 3. Committee on IGST and GST on imports. • The Parliamentary Standing Committee submitted its Report in August, 2013 to the Lok Sabha. The recommendations of the Empowered Committee and the recommendations of the Parliamentary Standing Committee were examined in the Ministry in consultation with the Legislative Department. Most of the recommendations made by the Empowered Committee and the Parliamentary Standing Committee were accepted and the draft Amendment Bill was suitably revised. • The final draft Constitutional Amendment Bill incorporating the above stated changes were sent to the Empowered Committee for consideration in September 2013.
2014	• In June 2014, 122nd draft Constitution Amendment Bill was sent to the Empowered Committee after approval of the new Government. Based on a broad consensus reached with the Empowered Committee on the contours of the Bill, the Cabinet on 17.12.2014 approved the proposal for introduction of a Bill in the Parliament for amending the Constitution of India to facilitate the introduction of Goods and Services Tax (GST) in the country.
2016	• This year the Indian parliament gave a unanimous decision on 122^{nd} draft Constitution Amendment Bill for implementation of GST (Goods & Services Tax) in India from the coming financial year FY 17-18.

Introduction

What is GST?

The full form of GST is Goods and Service tax. So, it is also called as Good and Service Tax bill. This bill is one of the remarkable changes in India's Indirect tax changes since the beginning of the economy. GST is a tax levied when consumer buys any good or service. There are three components of GST as given in the figure below.

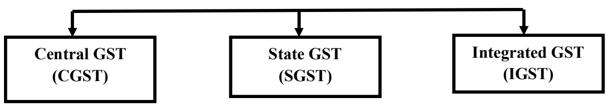

Figure 1 GST Structure

1. Central GST (CGST) – it will be Levied by Centre
2. State GST (SGST) – It will be levied by State
3. Integrated GST (IGST) – It will be levied by Central Government on Interstate supply of Good and Services

Remarkable thing about GST is that it avoids "cascading of taxes".

The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

Currently there are many indirect taxes like Service Tax, Vat, Luxury tax etc. Now, what GST does is that it combines all these taxes into one, i.e. subsumes all other indirect taxes. It is done for all the Central level and State level taxes. The nature of GST is that it taxes only the final customer. Hence the cascading of taxes is avoided and production costs are cut down. List of taxes that will be subsumed in the GST is given in the figure given below.

GST

Central Level Taxes	State Level Taxes
Central Excise Duty	State value added tax or Sales Tax
Additional Excise Duty	Entertainment Tax
Service Tax	Octroi and Entry Tax
Countervailing Duty	Purchase Tax
Special Additional Duty of Customs	Luxury Tax
	Taxes on lottery ,betting and Gambling

The figure given above clearly indicates that GST will club almost all indirect taxes levied by central and state government.

Exclusions in GST

Following products are excluded from GST

- Petroleum Products
- Alcoholic Beverages
- Diesel
- Tobacco

Working Mechanism of GST and how cascading effect is avoided

GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax 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 stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

There are two components of GST – Central GST (CGST) and State GST (SGST). Both Centre and States will simultaneously levy GST across the value chain. Tax will be levied on every supply of goods and services. Centre would levy and collect Central Goods and Services Tax (CGST), and States would levy and collect the State Goods and Services Tax (SGST) on all transactions within a State.

The input tax credit of CGST would be available for discharging the CGST liability on the output at each stage. Similarly, the credit of SGST paid on inputs would be allowed for paying the SGST on output. No cross utilization of credit would be permitted.

The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Further, both would be levied on the same price or value unlike State VAT which is levied on the value of the goods inclusive of Central Excise. Cross utilization of credit of CGST between goods and services would be allowed. Similarly, the facility of cross utilization of credit will be available in case of SGST. However, the cross utilization of CGST and SGST would not be allowed except in the case of inter-State supply of goods and services under the IGST model.

In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services under Article 269A (1) of the Constitution. The IGST would roughly be equal to CGST plus SGST. The IGST mechanism has been designed to ensure seamless flow of input tax credit from one State to another. The inter-State seller would pay IGST on the sale of his goods to the Central Government after adjusting credit of IGST, CGST and SGST on his purchases (in that order). The exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The importing dealer will claim credit of IGST while discharging his output tax liability (both CGST and SGST) in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. Since GST is a destination-based tax, all SGST on the final product will ordinarily accrue to the consuming State.

One of the primary goals of a taxation regime is always avoidance of "taxation over taxes" or "cascading-effect" of the incident taxes as it adds to the deadweight loss i.e. slump in total surplus of supply chain consisting of supplier, manufacturer, retailer and consumer. These cascading caused due to levy of variety of charges by state and union governments has raised the tax-burden on Indian products and made them less competitive in the International market. The vast- sizes of corporate-taxes owe much to this taxation structure and have led to adoption of tax-evasive practices. The common man finds himself strangled in disentangling an impossible knot of multiple tax-rates, laws and elaborate processes and often fails to comply with these complex legislations. The extra tax paid due to taxation of the already taxed amount is finally bore by the end consumer which is common man and strikes them badly in addition-to inflation.

Cascading effect of indirect tax can be understood with effect of following e.g. Manufacturer ' X' sales an item to 'Y' from Lucknow to Pune. The value of Goods is Rs. 250000/- On this say X has to charge CENVAT of 14.50% which will work out to Rs. 36250/- and X has to also charge CST @ 2% which will be Rs.5725/- of the total value of Rs. 286250/-(i.e. Rs. 250000 + Rs.36250) now this is a case of cascading effect as Rs.725/- is tax on tax out of Rs. 5725/ of CST levied.

Such situations will be avoided in case of GST which is clear from the following example.

Suppose Mr. 'X' sells goods to Mr. 'Y' for Rs. 100 on which 10% SGST & 10% CGST is levied they both are in same state i.e. State A. In this case total tax collected is Rs. 20 (i.e. Rs10 SGST & Rs. 10 CGST) Total invoice of Mr. of Mr. X will be Rs.120/-.

Now if Mr. 'Y' sells these goods to Mr. 'Z' for Rs. 200/- in another state i.e. State B in this case an IGST of 20% is levied which amounts to Rs. 40/- total invoice Rs. 240/- out of which Rs. 10 SGST & Rs. 10 CGST has already been paid credit input will be given in this case of Rs.20/-.

Now if Mr. Z sells the goods to the ultimate consumer for Rs. 300/- and 10% SGST & 10% CGST is levied which will make the total invoice of Rs.360/-. In this case total SGST paid will be Rs. 30/- less Rs. 10/- (IGST) = Rs. 20/- . Total CGST to be paid in this case will be Rs. 30/- less Rs. 30/- (CGST) = Rs. 0/- Thus in whole process the total tax collected at state level through SGST is Rs. 30/- (Rs.10/- state 'A' Rs. 20/- state 'B') Total tax collected at central level through CGST is Rs. 30/- (Rs. 10/- from state 'A' and Rs. 20/- through IGST). Thus making total tax collected Rs. 60/- till the goods reach the final consumer.

Implementation process of GST

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders.

The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.

GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing frontend services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST.

There would no manual filing of returns. All taxes can also be paid online. All mismatched returns would be auto- generated, and there would be no need for manual interventions. Most returns would be self-assessed.

Benefits of GST

National Council of Applied Economic Research (NCAER) has anticipated that roll out of GST would improve the India's GDP growth by 1 percent to 2 percent. As per Crisil reports GST is the best way to muster revenue and reduce the fiscal deficit. More than 140 countries worldwide had accepted GST. According to experts, by employing the GST, India will gain $15 billion a year. This is because it will encourage more exports, generate more employment opportunities and improve growth. It will divide the burden of tax between manufacturing and services. Looking at the extent, GST is going to impact all segments of the society – from small businessmen to huge multinational and from a developing state to a developed state in this country. The implementation of GST will give a boost to the growth engine pursued by the government. Following are some of the benefits that would result from the implementation of GST in the country.

- ***Simple indirect tax structure:*** The tax structure will be made lean and simple by replacing the current complex indirect tax structure which has resulted in increasing the magnitude of work and hindering the operational efficiency of tax collection system in the country. Simple tax rate system is bound to reduce all the above said hurdles.
- ***Reduction in transaction costs for businesses:*** Uniform taxing system and simplified tax procedure across the nation will facilitate free flow of goods and services across boundaries of states thus making entire Indian market as one unified market which is bound to reduce transaction costs which under present tax regime is one of the major issues.
- ***Reduction of cascading effect of tax:*** As every manufacturer, dealer, supplier and any other person involved in trade will be able to recover GST incurred on input costs as tax credits. This will reduce to cascading effect of indirect taxation on goods and services which has made the price of goods and services dearer to the ultimate consumer under the present indirect tax regime.
- ***Reduce tax burden on the final Consumer:*** GST will bring about uniform tax structure and simplified tax procedure, further it will lead to reduction in the cascading effect of indirect tax structure which in turn reduce the cost of doing business in the country this in all in long term would result in reduction in prices of goods and services to the final consumer.
- ***No taxes on Export:*** Exports are zero-rated, so, exporters needn't pay any GST. This incentive is bound to bring a boom in exports. Also, the alleviation of cascading of taxes would reduce the price of goods and services in the international market and would hence aid the exports.
- ***Promotion of corruption free and transparent tax system:*** GST will help to build a transparent, corruption-free tax administration and better compliance. Number of department will be reduced and use of IT infrastructure will lead to reduction in corruption.
- ***Enhanced tax revenue collection:*** Since most of the goods and services will be under GST tax net this will lead to more companies both organized and unorganized under the tax system resulting in widening the tax base thereby resulting more tax collection.
- ***Impetus to economic growth:*** Implementation of GST should lead to momentum to economic growth as GST will lead to competitive pricing there by resulting in better consumption which in turn increases production of goods and services.

Challenges in implementation of GST

GST is intended to make simpler the Indian indirect tax regime by substituting multiple of taxes by a single unified tax, thereby subsuming central excise, service tax, VAT, entry tax, etc. However, there is a glut of challenges before the government for its successful execution. Some of these challenges are highlighted below:

- Robust IT support system required: One of the key issues f that will impact the success of GST is the robust T backbone connecting all state governments, trade and industry, banks and other stakeholders on a real-time basis. The government has already incorporated an SPV viz. – Goods and Services Tax Network (GSTN), which has to build up a GST portal – front-end system for trade and industry and back-end system for all government agencies. GSTN will ensure technology support for registration, return filing, tax payment, IGST settlement, MIS and other dashboards on GST portal to all the stakeholders. How successful will this be only time will unravel.
- Proper training of staff: The present staff of the tax department both at central and state level has been trained on old indirect tax regime and have expertise for the same, however shifting to new tax regime under GST model will require a humongous task of training the staff for the new tax system but also the tax administration staff would also need to change their outlook, approach and attitude towards the tax payers.
- All states ratification required: One of the major issue that can proved to be stumbling block for smooth implementation of GST throughout the country is getting the GST Bill passed by the respective state governments in state assemblies. The government would also be required to put the GST bill in the public domain and give sufficient time to all stakeholders to understand and give their views on the bill.
- Estimated Tax revenue realization: GST is propose to bring about enhanced tax revenue collections but these are only estimates the real picture will be disclosed only when exact tax collection figures are assessed once GST is implemented.
- Not all goods covered under GST: Petroleum products, alcoholic beverages, diesel and Tobacco products are not

covered under GST which are one of the primary tax collection source of both Central and State governments. What implications this will have on the tax collection figure and sate of economy as a whole is still to be seen, since price of petrol affects cost of goods and services leaving petrol products out of GST ambit might reduce its overall effectiveness.

- Imports may become cheaper: Another precarious effect of the GST regime is that imports will be cheaper as the IGST on imports will be allowed to a set-off against the final selling price. This is not permitted under the existing regime. Thus, imported goods will now be cheaper because the IGST can be off-set by the importer when he sells the goods in the domestic market. GST will bring down manufacturing costs by reducing the cascading effect of indirect taxes and through improvement of supply-chain efficiencies. But these benefits must be mathematically greater than the benefit that will accrue to direct imports. With highly colossal labour, tax and regulatory laws in most states, manufacturing is hardly a blissful activity. If imports become even cheaper, the Make in India campaign will be badly affected.
- How will disputes be settle: There is great uncertainty over the actual manner of implementation of the GST regime. With the overlapping of taxes, how will the multiple laws be administered? Since the GST is a separate concurrent levy by the Centre and the states, how will the disputes be resolved? Will each state have its own GST tribunal? The model law is unduly harsh in several respects. For example, GST credit will be available only if the buyer of goods furnishes proof that the vendor has paid GST to the government account. Therefore, a lawyer or businessman cannot claim GST credit on the GST paid on his laptop unless he can prove that the seller has paid GST to the government.

CONCLUSION

GST is stated to be rolled out from 1 April 2017 and the expected benefits like increase in GDP growth, lucid indirect tax structure, anticipated prices fall, more generation of tax revenue and reduction in cumbersome compliance procedure etc are welcomed. Further if more than 140 countries worldwide have adopted GST like tax structure this is an obvious indication of its viability across different economies which should instill faith in our country authorities to be a success story. However to be it so, the government and tax administrative mechanism needs to chalk down effective strategic policies for providing necessary IT infrastructure coupled with extensive training of staff and other stakeholders who are also needed to be educated about the mechanism of this new tax regime. The task of doing so is even more challenging in country like India where lacunas of present indirect tax regime, corrupt administrative system with rigid mind set and obvious resistance to adapt to any change will make the implementation task a bumpy ride for authorities.

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