A Study on Enacting of Goods and Services Tax in India: Future Outcomes

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Introduction

Optimization of equity and efficiency in the system of taxation is a pre-requisite of social and financial growth. Models of taxation should aim, on one hand, at preventing adverse effects of taxes and on the other hand, enhancing the rate of growth of tax revenue by promoting natural compliance and making taxation system broad based.

Tax policies of a country play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time, also generate tax revenues to support government expenditure on public services and infrastructure development. The framework of value added tax (VAT), recognized as GST as well in several countries, has been one of the major development in taxation structures worldwide. More than 135 countries adopted the GST / VAT framework effectively.

Indian economy is getting more and more globalised. Introduction of an integrated Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of the world. It will also improve the international cost competitiveness of native goods and services. According to a report by the National Council of Applied Economic Research, GST is expected to increase economic growth by 0.9 percent to 1.7 percent and Exports are expected to increase by 3.2 percent to 6.3 percent.

II Objectives of the study

The study has been geared towards achieving the following objectives:

1) To understand the concept of Goods and Services Tax;
2) To know the benefit of Goods and Services Tax to economy, business and industry and consumer;
3) Political aspects in the enactment of the bill.

III Research Methodology

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports.

The objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study.

Available secondary data was extensively used for the study. The investigator procures the required data through secondary survey method. Different news articles, Books and Web were used which were enumerated and recorded.

IV Literature Review

The paper reviews "Basic Concepts and Features of Good and Service Tax in India", and found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, unified Indian market to make the economy stronger. 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.

Finance Minister is paying a lot of attention to GST, and it appears to be one of his most important agenda items. Therefore, I see GST being implemented by April 2016. The procedure of introducing the Goods & Services Tax (GST), one of the most crucial indirect tax reforms in India, has been a long and arduous one. In 2006, the then-Finance Minister had announced in his Union Budget speech that India would introduce GST by 1 April 2010. Since this announcement, the roll out of GST has not been easy, given the federal and state structure in the country that requires both parties to be on the same page on various contentious issues and the kind of complexities involved in subsuming the prevailing Central and State taxes and duties into the new GST regime. The entire exercise of initiating the new reform involved a tremendous amount of ground work by the Finance Commission, the Joint Working Group constituted by the Empowered Committee (EC) of State Finance Ministers, the Standing Committee, Sub-Committees and Study Groups, IT teams and all other stakeholders including India Inc. The amendment of the Constitution for implementing GST before legislating associated provisions was a big challenge for the Government. Lack of consensus between Centre and States and a few other practical difficulties resulted in deadlocks and delay in the implementation process.

V Goods and Service tax in India

The introduction of GST in India is not an entirely new initiative, but it is to rectify certain basic implementation shortcomings of VAT. So, this is an attempt to improve the existing VAT system further and also the tax system of India. VAT was introduced in the Indian taxation system from April 1, 2005 in an effort to address the shortcomings associated with the earlier Sales Tax. The States have switched over from a multiple point Sales tax to a Value Added Tax (VAT) covering all transactions of sale of goods within the State The essence of GST is to correct certain shortcomings of VAT like, the way it taxes inputs and outputs, bringing services under tax net, which is not possible under the VAT system. Hence, GST has been modeled as an extension of the current VAT that would make the tax system more comprehensive and smoother in its functioning.

In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted in May 2007 to prepare a GST module. In

November 19, 2007, Joint Working Group submitted its report to the Empowered committee. The report was discussed in detail in November 28, 2007 in the meeting of the Empowered committee. An important interaction also took place between Shri Pranab Mukherjee, the Union Finance Minister and the Empowered Committee in October 19, 2009, on the related issue of compensation for loss of the States on account of phasing out of CST. The Empowered Committee has now taken a detailed view on the recommendations of the Working Group of officials and other related matters. This detailed view of the Empowered Committee on the structure of GST is now presented in terms of the First Discussion Paper on November 10, 2009 setting out a target date for its implementation as April 1, 2010. The Union Finance Minister, Mr. Pranab Mukherjee, while delivering the budget speech in 2010, extended the date to April 1, 2011. This deadline was subsequently extended to April 1, 2012. Ex-Finance minister P. Chidambaram in his budget speech of 2013-14 while apologizing for the failure to meet the April 2012 deadline announced further postponement of the same to April 2014.

Finance Minister Arun Jaitley while addressing the officer trainees of the Indian Revenue Service said, The Goods and Services Tax (GST) is already delayed and should have come much earlier, adding that he is optimistic about passage of Constitution Bill for GST in the next session of Parliament as numbers in the Rajya Sabha will turn favourable.

“The next session is going to be extremely important. And halfway through the next session, the numbers of the Upper House are also going to change. So I am reasonably optimistic, as far as the next session is concerned, that we may be able to push it (GST Bill) through,” Jaitley said Parliament's Budget session will start in last week of February. The finance minister said there is consensus for GST among political parties.

“Between political parties, it's no secret that there is virtually a consensus, everybody supports it and then parliamentary obstructionism has prevented it from happening in the last two sessions. The next session is going to be extremely important,” the finance minister said.

The Winter Session of Parliament was a washout, with the government being unable to resolve the impasse over GST. Lok Sabha and Rajya Sabha passed 13 and 9 bills, respectively during the Winter Session of Parliament.

The GST regime, touted as the most important indirect tax reform since Independence, aims to integrate central excise, service tax and state value-added tax. The Constitution amendment bill hit a roadblock in the Rajya Sabha, where the government does not have a majority. The Lok Sabha had passed the Constitution amendment on GST in May.

After passage from the Rajya Sabha, it needs to be ratified by 50 per cent of states. The proposed tax regime aims to integrate central excise, service tax and state value added tax. After passing the Constitution amendment, three other legislations — the central law, the state law and integrated GST— have to be passed before the new tax regime can be rolled out.

Jaitley said the concept of GST was first conceived in 2006 and the Constitution Amendment Bill was first introduced in 2011, but the UPA government could not build a consensus with states.

He added the present government after coming to power built broad consensus among the states and following that brought the Constitution Amendment Bill to Parliament again.

Key features of Goods and Service tax

- The 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.
- GST will be paid to the accounts of the Centre (Central GST) and the States (State GST) separately, rates for which would be prescribed appropriately, reflecting revenue considerations and acceptability.
- Since the Central GST and State GST are to be treated individually, 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 only against the payment of Central GST.
- The GST will be levied on import of goods and services into the country
- The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
- To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislation for Central GST and State GST.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits. This would bring the GST PAN-linked system in line with the prevailing PAN-based system for Income tax, facilitating data exchange and taxpayer compliance
- The taxpayer would need to submit common format for periodical returns, to both the concerned Central and State GST authorities.

Dual GST model

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. It has been proposed that there would be a "Dual GST "model in India, taxes will be levied by both centre (Central GST) and state (State GST) on Goods and Services. Hence, a dual GST would be according to the Constitutional requirement of fiscal federalism.

- Central GST will be levied and collected by the Central Government.
- State GST will be levied, collected and appropriated by each of the States.

Taxes to be subsumed

The various Central, State and Local levies were examined to identify their possibility of being subsumed under GST. Central and State indirect taxes and levies listed below would be subsumed under the proposed GST:

Central tax and levies to be subsumed

1) Central Excise Duty; 2) Additional Excise Duties; 3) The excise Duty levied under the Medicinal and Toiletries Preparation Act; 4) Service Tax; 5) Additional Customs Duty, commonly known as Countervailing Duty (CVD); 6) Special Additional Duty of Customs – 4% (SAD); 7) Surcharges; and 8) Cesses.

State taxes and levies to be subsumed

1) VAT/Sales tax; 2) Entertainment tax (unless it is levied by the 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 in lieu of Octroi.

Rate of tax

Determining a revenue neutral rate for GST will be a difficult task because all the states would be required to reach a consensus on it. It has been proposed to adopt a two rate structure, a lower rate for necessary items and items of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items. For Central GST relating to goods, there might be a two rate structure, with conformity in the levels of rate with the State GST. For taxation of services, there may be a single rate for both Central GST and State GST.

GST on export and import

- Exports will not be subject to GST.
- Both Central Goods and Service Tax (CGST) and State Goods and Service Tax (SGST) will be levied on import of goods and services into the country.

why is it important?

- GST will widen the tax base, improve tax compliance, remove existing unhealthy competition among states and re-distribute the burden of taxation equitably among manufacturing and services;
- GST will ensure the uniformity of taxes across the states, regardless of place of manufacture or distribution;
- GST would integrate the tax base and allow seamless flow of input tax credit across the value chain of goods and services which will lead to reduced cost of goods and services.
- GST environment would lead to improved disclosure of economic transactions which may have a positive impact on direct tax collections also.
- The average tax burden on companies will fall which will reduce the costs of Indian goods and services in the international market and give boost to Indian exports;
- It will mitigate cascading and double taxation and enable better compliance through the lowering of overall tax burden on goods and services;

- Overall, it will result in increasing revenue at the Centre as the tax collection system becomes more transparent, making tax evasion difficult.

Benefits of gst

For business and industry

- Easy compliance
- Removal of cascading
- Improved competitiveness

For Central and State Governments

- Simple and easy to administer
- Better controls on leakage
- Consolidation of tax base
- Higher revenue efficiency

For the consumer

- Single and Transparent tax proportionate to the value of goods and services
- Reduction of prices

VI Conclusion

The GST at the Central and at the State level when introduced – is clear from the discussion above – will thus give more relief to producers and consumers through a more comprehensive and wider coverage of input tax set-off and service tax setoff, subsuming of several taxes in the GST. With the GST being properly formulated, it is expected that there will be revenue/ resource gain for both the Centre and the States, primarily through widening of tax base and possibility of a significant improvement in tax-compliance. Further it will also encourage an unbiased tax structure that is neutral to business processes and geographical locations. Given the enormity of the implication of GST, it requires a consensus among all political parties and states. However the implementation of GST has been delayed several times on account of lack of consensus among the States and Centre on aspects relating to limiting fiscal autonomy of the States.

History has proved that many countries have benefited from moving to a GST regime. In India, Implementation of GST would also greatly help in removing economic distortions caused by present complex tax structure and will help in development of a common national market.

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