

Prospects of GST in India

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ABSTRACT

GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. The introduction of Goods and Services Tax (GST) would be a significant step in the reform of indirect taxation in India. Amalgamating several Central and State taxes into a single tax would mitigate cascading or double taxation, facilitating a common national market. GST in India has not been implemented yet. But if it is implemented, it will bring great change in Indian economy. So, it is need of the hour to understand the importance of implementation of GST in India. GST should be positively welcomed in Indian economy and it is now set to be implemented from 01/04/2016

KEYWORDS

GST, Service Tax, CENVAT, IGST

INTRODUCTION

GST is a broad based, single, comprehensive tax levied on manufacture, sale and consumption of goods and services at each point of sale, in which, the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or availing the service; the final consumer will thus bear only the GST charged by the last dealer in the supply chain. With the introduction of GST at the National level, the additional burden of CENVAT and services tax would be comprehensively removed and major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes. Thus it marks a major improvement over the previous system of VAT. Again, the transparent and complete chain of set-offs, GST will help widening the coverage of tax base and improve tax compliance. This may lead to higher revenue which further results in lowering of tax burden. Although there are many hurdles to be crossed before the implementation of GST like consensus over rates, constitutional amendment, compensation mechanism for States losing out on revenue, varying models, dispute resolution etc. the Central government has reiterated its commitment towards the adoption of a 'flawless' GST for the survival of the India's economy in the face of increasing international competition consequent to globalization and liberalisation. Despite the various impediments to the proposed transition, until the time GST is implemented, it would be worthwhile to assess its positive impacts on the various development areas in India. The Goods and Services Tax (GST) will indeed be a further significant improvement – the next logical step – towards a comprehensive indirect tax reforms in the country.

SALIENT FEATURES OF PROPOSED GST SYSTEM IN INDIA

Dual GST: 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.

Inter-State Transactions and the IGST Mechanism: The Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supply of goods and services. 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.

Destination-Based Consumption Tax: GST will be a destination-based tax. This implies that all SGST collected will ordinarily accrue to the State where the consumer of the goods or services sold resides.

Central Taxes to be subsumed:

- i. Central Excise Duty
- ii. Additional Excise Duty
- iii. The Excise Duty levied under the Medicinal and Toiletries Preparation Act
- iv. Service Tax
- v. Additional Customs Duty, commonly known as Countervailing Duty (CVD)
- vi. Special Additional Duty of Customs-4% (SAD)
- vii. Cesses and surcharges in so far as they relate to supply of goods and services.

State Taxes to be subsumed:

- i. VAT/Sales Tax
- ii. Central Sales Tax (levied by the Centre and collected by the States)
- iii. Entertainment Tax

iv. Octroi and Entry Tax (all forms)

v. Purchase Tax

vi. Luxury Tax

vii. Taxes on lottery, betting and gambling

viii. State cesses and surcharges in so far as they relate to supply of goods and services.

All goods and services, except alcoholic liquor for human consumption, will be brought under the purview of GST.

i. Petroleum and petroleum products have been constitutionally included as 'goods' under GST. However, it has also been provided that petroleum and petroleum products shall not be subject to the levy of GST till notified at a future date on the recommendation of the GST Council. The present taxes levied by the States and the Centre on petroleum and petroleum products, viz. Sales Tax/VAT and CST by the States, and excise duty the Centre, will continue to be levied in the interim period.

ii. Taxes on tobacco and tobacco products imposed by the Centre shall continue to be levied over and above GST.

iii. In case of alcoholic liquor for human consumption, States would continue to levy the taxes presently being levied, i.e., State Excise Duty and Sales Tax/VAT.

GST Council: In the GST regime, a Goods and Services Tax Council is being created under the Constitution. The GST Council will be a joint forum of the Centre and the States. This Council would function under the Chairmanship of the Union Finance Minister and will have Minister in charge of Finance/Taxation or Minister nominated by each of the States & UTs with Legislatures, as members. The Council will make recommendations to the Union and the States on important issues like tax rates, exemption list, threshold limits, etc. The recommendations made by this Council will act as benchmark or guidance to Union as well as State Governments. One-half of the total number of Members of the Council will constitute the quorum of GST council. Every decision of the Council shall be taken by a majority of not less than three-fourths of the weighted votes of the members present and voting in accordance with the following principles:-

i. The vote of the Central Government shall have a weightage of one-third of the total votes cast, and

ii. The votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast in that meeting..

This is to protect the interests of each State and the Centre when the Council takes a decision and is in the spirit of co-operative federalism.

Floor rates of GST with band: GST rates will be uniform across the country. However, to give fiscal autonomy to the States and the Centre, there will a provision of a tax band over and above the rate of

the floor rates of CGST, SGST and IGST. Initially, the rates of CGST, SGST and IGST are expected to be closely aligned to the Revenue Neutral Rates (RNR) of the Centre and the States.

Goods and Services Tax Network (GSTN): A not-for-profit, Non-Government Company called Goods and Services Tax Network (GSTN), jointly set up by the Central and State Governments will provide shared IT infrastructure and services to the Central and State Governments, tax payers and other stakeholders.

GST Compensation: Due to a shift from origin based to destination based indirect tax structure, some States might face drop in revenue in the initial years. To help the States in this transition phase, the Centre has committed to compensate all their losses for a period of 5 years. Accordingly, clause 19 has been inserted in the Constitution (122nd) Amendment Bill, 2014 to provide for compensation to States by law, on the recommendation of the Goods and Services Tax Council, for loss of revenue arising on account of implementation of the goods and services tax for a period of five years.

Advantages of GST

Apart from full allowance of credit, there are several other advantages of introducing a GST in India:

Reduction in prices: Due to full and seamless credit, manufacturers or traders do not have to include taxes as a part of their cost of production, which is a very big reason to say that we can see a reduction in prices. However, if the government seeks to introduce GST with a higher rate, this might be lost.

Increase in Government Revenues: This might seem to be a little vague. However, even at the time of introduction of VAT, the public revenues actually went up instead of falling because many people resorted to paying taxes rather than evading the same. However, the government may wish to introduce GST at a Revenue Neutral Rate, in which case the revenues might not see a significant increase in the short run.

Less compliance and procedural cost: Instead of maintaining big records, returns and reporting under various different statutes, all assesseees will find comfortable under GST as the compliance cost will be reduced. It should be noted that the assesseees are, nevertheless, required to keep record of CGST, SGST and IGST separately.

Move towards a Unified GST: Internationally, the GST is always preferred in a unified form. Although India is adopting Dual GST looking into the federal structure, it is still a good move towards a Unified GST which is regarded as the best method of Indirect Taxes.

CONCLUSION

GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It would be one of the most significant fiscal reforms of independent India. It is expected to result in major rationalization and simplification of the tax structure at both Centre and State levels. It is expected to replace all indirect taxes, thus avoiding multiple layers of taxation that currently exist in India. GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change as more than 140 countries have introduced GST in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region. Sooner or later, the GST will surely knock the doors of India.

Welcoming the passage of Goods & Services Tax (GST) Bill in the Lok Sabha, industry and experts said new tax regime would add around 1.5 percentage points to the economic growth and create a common market across the country. This is certainly the first step in making India an unified market, and one of the most extensive and far-reaching reform in the tax domain, which would boost industrial growth & economic progress.

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