



## Challenges in Implementation of GST in India

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### ABSTRACT

*The Rajya Sabha unanimously passed the constitution (122nd amendment) bill with 203 votes in favor and none against. GST (Goods and Services Tax) is a single tax which replaces all other taxes imposed by centre and state governments. The GST is consolidated tax based on uniform rate fixed for both goods and services. Though the Govt. wants the GST to be implemented by April 2017, there are certain challenges which need to be taken care of before that. This paper will throw light on those bottlenecks, preparations needed at central and state level, whether the govt. machinery is efficient enough for such big change? Will GST help the small traders etc. ?*

### KEYWORDS : GST, Challenges, Inflation, SSI'S

The constitution divides the taxation powers between centre and states. Both type of Governments have some exclusive areas in which they can levy tax. There are two types of taxes which are levied by both levels of governments (a) Direct Taxes (b) Indirect Taxes. Income tax which include tax on company profits is the exclusive domain of central government. These taxes are referred as direct taxes.

Indirect taxes are levied on manufacture of goods, provision of services and consumption. In India, indirect taxes on manufacturing of goods or services are exclusive domain of central Govt. Taxes on consumption are the exclusive domain of state governments.

#### GST

GST is goods and services tax is one indirect tax for whole nation, which will make India one unified common market. GST is a single tax on goods and services right from manufacturer to the consumer. There are many taxes like central excise duty, service tax, additional custom duty Sales Tax, entertainment tax, octroi, luxury tax etc are levied by state Govt. Now all these taxes are replaced by a single tax that is GST.

GST is a single tax under which goods and services are not distinguished. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition at each stage. It makes GST a tax only on value addition at each stage. The final consumer will bear only the GST charged by the last dealer in the supply chain with set off benefits at previous stage.

The passing of GST bill is being seen as the big move after the reforms adopted during 90s in Indian economy. The Govt. is already gearing up for timely implementation of GST by strengthening the IT sector.

On one hand where a majority of corporate world is rejoicing there are few who do not belong to the happy lot. They are having their own different opinion.

GST seems rosy and extremely beneficial on paper. But is suited for India? There are few aspects which contradict the growth story and there are some hurdles which will take time to overcome before implementation of GST.

#### Challenges In Implementation of GST:-

##### Training to tax administration staff:-

GST is absolutely different from existing system. It therefore requires the tax administration staff at both centre and state to be trained properly so that they can understand the concept, legislation and procedure. The tax administration staff require a change in their mindset, approach and attitude towards the tax payer. For this they have to learn some new concept and unlearn some concepts also. To implement the GST there has to do a lot of change in administration level and it also require sound IT infrastructure and also trained staff.

##### Provision For Rules:-

Another challenge for GST is taxation on inter-state supplies of goods and services. As we know taxable events of manufacture and sales

of goods and services under the present indirect tax system will be no more with GST. Therefore it would be necessary to prepare comprehensive rules for identifying the time and the place of supplies of goods and services in order to tax them properly. Presently there is central sales tax for inter-state sale of goods and no service tax at state level. In such context some rules have to be evolved for taxation of inter-state supplies of services in undisputed manner under GST regime. So success of GST would be in simple and clear-cut rules in determining the place of supply of services.

#### Inflation tend to rise:-

When GST is implemented there are chances of rise in inflation and this is the international experience. We have large sector of economy which is unorganized and when this sector get captured into the tax net, it will become reason of inflation. We have an economy in which services tend to dominate and which are charged less tax rates now. But after implementation of GST tax of services will be potentially higher than now. That is going to be another reason of inflation. Beside this currently there are some articles which are now outside the purview of taxation right now, which when get added for taxation will raise the inflation.

#### Snatches away the state's power:-

GST by nature is against the spirit of federalism as it snatches away the state's taxation powers which were given in the constitution. Some states fear that the uniform tax rate is lower than the existing rates. It will hit the tax collection of states. The state Governments believe that present taxes lead to better revenue collection for states.

#### Requirement of strong I.T. infrastructure:-

It require strong IT infrastructure for implementing GST at gross root level. India essentially lacks this. This is another bottleneck, if not addressed well in advance.

#### Old wine in new bottle:-

This bill as brought up by newly elected central Govt. is basically the old wine in new bottle, with minor changes. In current form of GST centre decided to compensate the state loss by 100% in first three years. 75% for fourth year and 50% for fifth year. As India has opted for a dual GST model is CGST and SGST. These are nothing but the new names for central excise/service tax, VAT and CST. The businessman shall again have to face two revenue collection authorities. He shall have to file return before both, declare invoices and balance sheet etc.

#### Against small scale industries and in favor of big industrial houses:-

The big industrial houses are going to get benefited in a massive way. The small industries would die. All other people associated directly with these small scale industries would be put to undue hardship resulting in unemployment. They will be forced to work only for big houses. No doubt overall economy would grow. The real wealth of our country will also grow. But this growth would be without development. Many people would be on the mercy of few number of big business houses. The rich will become more rich and poor will be-

come more poor, in other words increase in inequality of income and wealth. Also the thousand of CA's who are giving their services to the small scale industries, would lose their professional work. So big industrial houses would be in commanding position.

#### **A Regressive Tax:-**

GST is a regressive tax which has more effect on lower income earners, means the tax consumes higher proportion of their income when compared to those earning large income. The tax base in GST is expenditure not income. Every one who consume goods and services cannot avoid paying it. Majority of population poor and lower middle class consume these goods and services daily. So they have to bear the burden. So this is regressive in nature.

#### **Shortage of Staff:-**

As we know even today in India indirect tax administration faces shortage of staff for collection of tax revenue, document management and recovery etc. As it is said that GST will widen the tax base. So the shortage of staff will be a big problem to be solved.

#### **Revenue generating items are out of GST:-**

There are some items which are kept out of GST regime. Tax on petroleum products, Tax on alcohol/liquor consumption, Tax on tobacco etc are not covered under GST purview because states are not ready to loose their revenue.

#### **Highlights the difference between goods and services:-**

Instead of reducing the difference between goods and services, it highlights them. A common man have to suffer from this while filing the tax returns.

#### **GST will negatively affect insurance, banking, real estate sectors:-**

India has lowest insurance penetration in world (less than 5% of Indian population and half of the global average) and on the other hand GST will make the insurance product costly. Life, health and motor insurance will begin to cost more from April 2017 as tax will go up.

Banking and financial sector might also hit as presently the tax rate in the sector is 14% which is levied only on fee component of the transaction. Under GST, tax rate is expected to increase to 18% to 20% with implementation of GST. So there will be increase in loan processing fees, debit/credit card charges, insurance premium etc.

GST would also negatively effect the real estate market because with implementation of GST cost of new homes will increase and it will reduce the demand.

When the aviation industry was witnessing the much awaited growth with increasing domestic traffic, the GST might slower the rate at which industry is expecting growth as flying will become expensive. Service tax on fares currently ranging between 6% to 9% with GST the rate will be 15% to 18% which is almost the double. This will have negative impact on this sector.

#### **Concent and co-operation of states:-**

For implementation of GST, it is necessary that GST bill is passed by the respective state governments in the state assemblies so as to bring majority. This is again a big task. As we know GST is a consumption based tax. That state will have better revenue in which consumption is higher. So co-operation from states is required for successful implementation of GST.

#### **Economic challenge before states:-**

The states have to face an economic challenge (a drought, a flood or a crop failure) or starting a new social welfare scheme will be severely strained under the GST regime. If M.G. Ramachandran was dependent upon the share from the centre for all his cash flows, he may not have been able to start school lunch programmes.

#### **Compensation to local bodies:-**

States have been promised to be compensated by the centre govt. for few year of GST implementation. They have recently agreed on a figure which would be dispersed in three staggered payments. But none of these states have come forward with such compensation toward the local bodies. The Mumbai municipal corporation collects over Rs.

6,000 crore per annum as octroi duty. But Maharashtra Govt. has not made any commitment toward compensation to BMC when octroi is merged into GST regime.

#### **Conclusion:-**

Like all other things GST also has some pros and cons. Some products and services will be cheaper and some will be costlier. As we discussed the challenges in implementation of GST, these losses or negative effects will effect only in short run and may not be painful in long run if the system will be implemented by taking care of all these things. And if it work properly.

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