



## Challenges and Opportunities of Goods and Service Tax (GST) in India

### KEYWORDS

India, Industry, Implementation, Taxation, Trade, VAT

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**ABSTRACT** *The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy. Ignorance of law is no excuse but is liable to panel provisions, hence why not start learning GST and avoid the cost of ignorance. Therefore, we all need to learn it whether willingly or as compulsion. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporates and the economy. The changed indirect tax system GST-Goods and service tax is planned to execute in India. Several countries implemented this tax system followed by France, the first country introduced GST. Goods and service tax is a new story of VAT which gives a widespread setoff for input tax credit and subsuming many indirect taxes from state and national level. The GST Implementation is not yet declared by government and the drafting of GST law is still under process and a clear picture will be available only after announcement of Implementation. India is a centralized democratic and therefore the GST will be implemented parallel by the central and state governments as CGST and SGST respectively. The objective will be to maintain a commonality between the basic structure and design of the CGST, SGST and SGST between states.*

*In this article, I have started with the introduction, in general of GST and have tried to highlight the objectives the proposed GST is trying to achieve. Thereafter, I have discussed the possible challenges and threats; and then, opportunities that GST brings before us to strengthen our free market economy.*

### 2. INTRODUCTION:-

Introduction of the Value Added Tax (VAT) at the Central and the State level has been considered to be a major step – an important step forward – in the globe of indirect tax reforms in India. If the VAT is a major improvement over the pre-existing Central excise duty at the national level and the sales tax system at the State level, then the Goods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country.

Initially, it was conceptualized that there would be a national level goods and services tax, however, with the release of

First Discussion Paper by the Empowered Committee of the State Finance Ministers on 10.11.2009, it has been made clear that there would be a "Dual GST" in India, taxation power – both by the Centre and the State to levy the taxes on the Goods and Services.

Almost 150 countries have introduced GST in some form. While countries such as Singapore and New Zealand tax virtually everything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categories of exemptions. In China, GST applies only to goods and the provision of repairs, replacement and processing services. GST rates of some countries are given below.

Country	Australia	France	Canada	Germany	Japan	Singapore	Sweden	New zealand
Rate of GST	10%	19.6%	5%	19%	5%	7%	25%	15%

### 3. CONCEPT OF GST:-

World over in almost 150 countries there is GST or VAT, which means tax on goods and services. Under the GST scheme, no distinction is made between goods and services for levying of tax. In other words, goods and services attract the same rate of tax. GST is a multi-tier tax where ultimate burden of tax fall on the consumer of goods/ services. It is called as value added tax because at every stage, tax is being paid on the value addition. Under the GST scheme, a person who was liable to pay tax on his output, whether for provision of service or sale of goods, is entitled to get input tax credit (ITC) on the tax paid on its inputs.

### 4. OBJECTIVES OF GST:-

One of the main objectives of GST would be to eliminate the cascading impact of taxes on production and distribution cost of goods and services. The exclusion of cascading effects i.e. tax on tax will significantly improve the competitiveness of original goods and services which leads to beneficial impact to the GDP growth. It is felt that the GST would serve a superior reason to achieve the objective of streamlining indirect tax regime in India which can remove cascading effects in supply chain till the level of final consumers only when all such above mentioned indirect taxes are completely

included in GST. It is understood that alcohol, tobacco and petroleum products will not be enclosed by GST as alcohol and tobacco are considered as Sin Goods, and governments do not like to allow free trade on these property.

### 5. CHALLENGES:-

#### 5.1 With respect to Tax Threshold

The threshold limit for turnover above which GST would be levied will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low to bother small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected. The first impact of setting higher tax threshold would naturally lead to less revenue to the government as the margin of tax base shrinks, second it may have on such small and not so developed states which have set low threshold limit under current VAT regime.

#### 5.2 With respect to nature of taxes

The taxes that are generally included in GST would be excise duty, countervailing duty, cess, service tax, and state level VATs among others. Interestingly, there are numerous other states and union taxes that would be still out of GST.

### 5.3 With respect to number of enactments of statutes

There will be two types of GST laws, one at a center level called 'Central GST (CGST)' and the other one at the state level - 'State GST (SGST)'. As there seems to be different tax rates for goods and services at the Central Level and at the State Level, and further division based on necessity and other property based on the need, location, geography and resources of each state.

### 5.4 With respect to Rates of taxation

It is true that a tax rate should be devised in accordance with the state's necessity of funds. Whenever states feel that they need to raise greater revenues to fund the increased expenditure, then, ideally, they should have power to decide how to increase the revenue.

### 5.5 With respect to tax management and Infrastructure

It depends on the states and the union how they are going to make GST a simple one. Success of any tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity with the administrative measures and policies.

## 6. OPPORTUNITIES:-

### 6.1 An end to cascading effects

This will be the major contribution of GST for the business and commerce. At present, there are different state level and center level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

### 6.2 Growth of Revenue in States and Union

It is expected that the introduction of GST will increase the tax base but lowers down the tax rates and also removes the multiple point. This will lead to higher amount of revenue to both the states and the union.

### 6.3 Reduces transaction costs and unnecessary wastages

If government works in an efficient mode, it may be also possible that a single registration and single compliance will suffice for both SGST and CGST provided government produces effective IT infrastructure and integration of such infrastructure of states level with the union.

### 6.4 Eliminates the multiplicity of taxation

One of the great advantages that a taxpayer can expect from GST is elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

### 6.5 One Point Single Tax

Another feature that GST must hold is it should be 'one point taxation'. This also gives a lot of comforts and confidence to business community that they would focus on business rather than worrying about other taxation that may crop at later stage. This will help the business community to decide their supply chain, pricing modalities and in the long run helps the consumers being goods competitive as price will no longer be the function of tax components but function of sheer business intelligence and innovation.

### 6.6 Reduces average tax burdens

Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

### 6.7 Reduces the corruption

It is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Service.

## 7. Justification of GST:-

The introduction of GST at the Central level will not only include comprehensively more indirect Central taxes and inte-

grate goods and service taxes for the purpose of set-off relief, but may also lead to revenue gain for the Centre through widening of the dealer base by capturing value addition in the distributive trade and increased compliance. In the GST, both the cascading effects of CENVAT and service tax are removed with set-off, and a constant chain of set-off from the original producer's point and service provider's point up to the retailer's level is established which reduces the burden of all cascading effects. This is the real meaning of GST, and this is why GST is not simply VAT plus service tax but an improvement over the previous system of VAT and disjointed service tax. Moreover, with the introduction of GST, burden of Central Sales Tax (CST) will also be removed. The GST at the State-level is, therefore, justified for-

- Additional power of levy of taxation of services for the States
- System of comprehensive set-off relief,
- Subsuming of several taxes in the GST
- Removal of burden of CST.

## 8. Dual GST

Dual GST means, the proposed model will have two parts called

- CGST – Central goods and service tax for levied by central Govt.
- SGST – State goods and service tax levied by state Govt.

There would have multiple statute one CGST statute and SGST statute for every state.

## 9. Salient features of the GST model

Salient features of the proposed model are as follows:

- The GST shall have two components: one levied by the Centre (referred to as Central GST), and the other levied by the States (referred to as State GST). Rates for Central GST and State GST would be approved appropriately, reflecting revenue considerations and acceptability.
- 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.
- The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
- 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.
- Cross utilization of ITC between the Central GST and the State GST would not be permitted except in the case of inter-State supply of goods and services.
- Ideally, the problem related to credit accumulation 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.
- 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.
- The States are also of the view that Composition/Compounding Scheme for the purpose of GST should have an upper ceiling on gross annual turnover and a floor tax rate with respect to gross annual turnover.
- The taxpayer would need to submit periodical returns, in common format as far as possible, to both the Central GST authority and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 14/15 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.

**10. BENEFITS OF GST**

1. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
2. CST will be removed and need not pay. At present there is no input tax credit available for CST.
3. Many indirect taxes in state and central level included by GST, You need to pay a single GST instead of all.
4. Uniformity of tax rates across the states
5. Ensure better compliance due to aggregate tax rate reduces.
6. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
7. Prices of goods are expected to reduce in the long run as the benefits of less tax burden would be passed on to the consumer.

**11. INDIRECT TAXES INCLUDED UNDER GST**

The following indirect taxes from state and central level is going to integrated with GST

**11.1 State taxes**

1. VAT/Sales tax
2. Entertainment Tax ( unless it is levied by 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 on in lieu of octroi.
7. Purchase tax ( This is not sure still under discussion )

**11.2 Central Taxes**

1. Central Excise Duty.
2. Additional Excise Duty.
3. The Excise Duty levied under the medical and Toiletries Preparation Act
4. Service Tax.
5. Additional Customs Duty, commonly known as counter-vailing Duty ( CVD)
6. Special Additional duty of customs- ( SAD)

7. Surcharges

8. Cesses The above taxes dissolve under GST; instead only CGST & SGST exists.

**13. APPLICABILITY OF CGST AND SGST**

The applicability of taxes is as usual there would be a prescribed limit of annual turnover, also some goods and services are exempted under GST. Threshold for annual turnover for goods and services would be 10 lakh for SGST and threshold of CGST for goods may be 1.5 crore and service would have a separate threshold that too will be appropriately high. It is assumed that aggregate total of CGST & SGST would be 20%.

**14. CONCLUSION:-**

GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is leviable on all supply of goods and provision of services as well combination thereof. All sectors of economy whether the industry, business including Govt. departments and service sector shall have to bear impact of GST.

All sections of economy viz., big, medium, small scale units, intermediaries, importers, exporters, traders, professionals and consumers shall be directly affected by GST.

One of the biggest taxation reforms in India -- the Goods and Service Tax (GST) -- is all set to integrate State economies and boost overall growth. 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.

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