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HISTORY AND BENEFITS OF GST IMPLEMENTATION

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KEYWORDS :

Introduction

Several countries have already established the Goods and Services Tax. In Australia, the system was introduced in 2000 to replace the Federal Wholesale Tax. GST was implemented in New Zealand in 1986. A hidden Manufacturer's Sales Tax was replaced by GST in Canada, in the year 1991. In Singapore, GST was implemented in 1994. GST is a value-added tax in Malaysia that came into effect in 2015.One of the most important benefit of the move is the mitigation of double taxation or the elimination of the cascading effect of taxation. The initiative is now paving the way for a common national market. Indian goods are also expected to be more competitive in international and domestic markets post GST implementation.

From the viewpoint of the consumer, there would be a marked reduction in the overall tax burden that is currently in the range of 25% to 30%. The GST, due to its self-policing and transparent nature, is also easier to administer on an overall scale.

History of GST in India

In India, the idea of adopting GST was first suggested by the Atal Bihari Vajpayee Government in 2000. The state finance ministers formed an Empowered Committee (EC) to create a structure for GST, based on their experience in designing State VAT. Representatives from the Centre and states were requested to examine various aspects of the GST proposal and create reports on the thresholds, exemptions, taxation of inter-state supplies, and taxation of services. The committee was headed by Asim Dasgupta, the finance minister of West Bengal. Dasgupta chaired the committee till 2011. Facing many problems and finally Honourable President of India gives his consent on September 2016for the Constitution Amendment Bill to become an Act. In 2017,Four Bills related to GST become Act, following approval in the parliament and the President's assent:

- Central GST Bill
- Integrated GST Bill
- Union Territory GST Bill
- GST (Compensation to States) Bill

The GST Council also finalised on the GST rates and GST rules. The Government declares that the GST Bill will be applicable from 1 July 2017, following a short delay that is attributed to legal issues.

Before GST

Before the implementation of GST, taxation laws between the Centre and states were clearly demarcated. There were no overlaps between the fiscal powers, whatsoever. The Centre would levy tax on goods manufacture, except alcohol for consumption, narcotics, opium, etc. The states had the power to charge tax on the sale of goods. The Centre would levy the Central Sales Tax that was collected by the originating states. The Centre was also levying service tax on all types of services. Additionally, the Centre was charging and collecting additional duties of customs on goods that were imported into or exported from India. This tax was levied in addition to the Basic Customs Duty. This additional duty of customs is referred to as Countervailing Duty (CVD) and Special Additional Duty (SAD) and it counter balances excise duties, state VAT, sales tax, and other such taxes.

The introduction of the GST regime made amendments to the Constitution so that the Centre and states are empowered at the same time to levy and collect GST. This concurrent jurisdiction of the states and Centre also requires an institutional mechanism that ensures joint decisions are taken about the structure and operation of GST.

Constitution Amendment

In order to address prevalent issues in taxation, the Constitution 122nd Amendment Bill was put forth in the 16th Lok Sabha on 19 Dec 2014.

- The Bill suggests levy of GST on all goods and services, except alcohol that humans consume.
- The tax is levied as Dual GST by the Centre and states/union territories. The component levied by the Centre is Central Tax - CGST, while that levied by the state is State Tax - SGST. The tax levied by union territories is Union Territory Tax - UTGST.
- The Centre would levy the GST on inter-state trade or imports of services and goods. This tax is referred to as Integrated Tax - IGST.
- The Central Government will also levy excise duty on tobacco products, in addition to GST.
- The tax on five petroleum products, i.e., high speed diesel, crude, petrol, natural gas, and Aviation Turbine Fuel (ATF) will be outlined later after a decision is made by the GST Council.

Goods and Services Tax Council

A Goods and Services Tax Council (GSTC) was created by the union finance minister, revenue minister, and ministers of state to take decisions on GST rates, thresholds, taxes to be subsumed, exemptions, and other features of the taxation system. The state finance ministers mentioned that the EC would be a platform for states where there would be discussions of their regional issues. The GST Council is a separate entity that would oversee the implementation of the GST system.

Decisions taken by GST Council

Some of the major decisions taken by the GSTC so far are:

- There would be four tax rates under the GST regime, i.e., 5%, 12%, 18%, and 28%. Some goods and services were also classified as exempt from tax.
- A cess above the peak rate of 28% would be levied on certain sin and luxury goods.
- The administrative control over 90% of taxpayers with turnover less than Rs.1.5 crore would be with the State tax administration. 10% of control would be with the Central tax administration.
- Administrative control over taxpayers having turnover above Rs.1.5 crore would be equally divided between the State and Centre tax administration.

Goods and Services Tax Network

Goods and Services Tax Network (GSTN) was set up as a private company in 2013 by the Government under Section 25 of the Companies Act, 1956. GSTN is expected to offer the front-end services of registration, payment, and returns to taxpayers. It would also develop back-end technical modules that will be utilised by 25 states that have opted in.

GSTN has also identified 34 IT and financial technology companies and tagged them as GST Suvidha Providers (GSPs). These organisations will develop applications that will be used by taxpayers when they interact with GSTN.

The GST system is characterized by the following features:

- GST is applicable on the “supply” of services or goods as opposed to the earlier concept of taxation on goods manufacture, sale of goods, or service provision.
- GST is a destination-based tax structure unlike the origin-based structure that existed previously.
- CGST, IGST, and SGST/UTGST are levied at rates that would be

mutually agreed upon by the states and Centre.
- GST will replace the central taxes mentioned below:
- Duties of Excise (medicinal and toilet needs)
- Central Excise Duty
- Additional Duties of Excise (Goods of Special Importance)
- Additional Duties of Customs (CVD)
- Service Tax
- Special Additional Duty of Customs(SAD)
- Additional Duties of Excise (Textiles and Textile Products)
- Cesses and surcharges
- GST will subsume the following state taxes:
- Central Sales Tax
- Entry Tax
- State VAT
- Luxury Tax
- Purchase Tax
- Entertainment Tax, except that levied by local entities
- Taxes on lotteries and gambling
- Taxes on advertisements
- State cesses and surcharges
- Taxpayers with annual turnover of Rs.20 lakh is exempt from GST. For special category states, this cut-off is Rs.10 lakh. An option of compounding is available to small-scale taxpayers with annual turnover of Rs.50 lakh or below. The choice of threshold exemption and the compounding scheme are optional.
- Input credit of CGST shall be used only for paying CGST on the output. Similarly, input credit of SGST/UTGST will be used only for the payment of SGST/UTGST. Therefore, the two channels of input tax credit cannot be cross-utilised, except for the payment of IGST for inter-state supplies.

Benefits of GST Implementation
- As mentioned above, the compounding the GST system will create a common national market that boosts foreign investment.
- The cascading effect of taxation will be mitigated.
- There will be uniformity in laws, rates of tax, and procedures across states.
- The GST regime is expected to boost manufacturing activities and exports. This would, in turn, generate more employment and lead to the growth of the economy.
- Indian products would be more competitive in the international markets.
- The GST system is likely to improve the overall investment climate in India.
- Uniformity in the rates of SGST and IGST will reduce tax evasion to a large extent.
- The average sales burden experienced by companies is expected to come down, thereby increasing consumption and boosting subsequent production of goods.
- GST is a simpler system of taxation with smaller number of exemptions.
- There are automated and simplified methods for processes such as registration, refunds, returns, tax payments, etc.
- All interactions will be handled by the common GSTN website.
- The input tax credit process will be more accurate and transparent, as electronic matching will be performed.
- The final price of most goods will be lower when taxation is at the new GST rates. There will also be a seamless input tax credit flow between the manufacturer, retailer, and supplier of service.
- A huge segment of small-scale retailers may be either exempt from tax or may benefit from low tax rates based on scheme. Consumers will further benefit if purchases are made from these small retailers.

Conclusion

The implementation of the Goods and Services Tax (GST) in India was a historical move, as it marked a significant indirect tax reform in the country. The amalgamation of a large number of taxes (levied at a central and state level) into a single tax is expected to have big advantages.