Original Research Paper Commerce

Challenges and Implementation of GST (Goods and Service Tax) in India

Hitesh K. Prajapati Assistant Professor, HNSB College of Management Studies, Himmatnagar, S.K.-383001

ABSTRACT

The aim of paper is to find out the challenges and to think that how it is possible to implement in India. This paper also shows the calculation and concept of GST bill in India. The result shows that the GST Bill is beneficial to all and also the calculation is easy and implementation is also easy. It replaces many taxes in one. GST is one of the most crucial tax reforms in India which has been long pending. It was supposed to be implemented from April 2010 because of political issues and conflicting interests of various stakeholders it is implemented this year. It is a comprehensive tax system that will subsume all indirect taxes of states and central governments and unified economy into a seamless national market.

KEYWORDS GST Bill, VAT, Indirect Tax, India

INTRODUCTION

The GST is likely to change the whole scenario of current indirect tax system. This is the biggest tax reform in India since 1947. Currently, there is a complicated indirect tax system prevailing by dual system, by Central and state Govt., in India. GST will unify all the indirect taxes under an umbrella and will create a smooth national market. Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate. GST was first introduced by France in 1954 and now it is followed by 140 countries. Most of the countries followed unified GST while some countries like Brazil, Canada follow a dual GST system where tax is imposed by central and state both. In India also dual system of GST is proposed including CGST and SGST.

LITERATURE REVIEW

Agogo Mawuli (May 2014) studied in his "Goods and Service Tax-An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If still these countries want to implement GST then the rate of GST should be less than 10% for growth. Dr. R. Vasanthagopal (2011) studied, "GST in India: A Big Leap in the Indirect Taxation System" and concluded that switching to GST from current complicated indirect tax system in India will be a positive step in booming Indian economy. Success of GST will lead to its acceptance by more than 140 countries in world and a new preferred form of indirect tax system in Asia also. Ehtisham Ahmed and Satya Poddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simpler and transparent tax system with increase in output and productivity of economy in India. But the benefits of GST are critically dependent on rational design of GST. Nitin Kumar (2014) studied, "Goods and Service Tax- A Way Forward" and concluded that implementation of GST in India help in removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is indifferent to geographical locations.

OBJECTIVES OF THE STUDY

The study has following objectives:

1. To study the concept of GST
2. To study the challenges of GST in India.

RESEARCH METHODOLGY

Being an explanatory research, it is based on secondary data of journals, articles, newspapers and magazines getting from internet or library. Considering the objectives of study descriptive type research design is adopted to have more accuracy and rigorous analysis of research study. The accessible secondary data is intensively used for research study.

GST (Goods and Service Tax)

GST means Goods and Service Tax. It is an indirect tax levied on sale of goods and services. The reformists believe that GST is one of the most awaited law which upon introduced will boost the economic growth in the country. This law if passed by the parliament may come into force from April 2016. As everyone is talking about it now, let's get into the basics of the proposed law in this article.

Present system – This can be better explained through an example.

Suppose you buy soap for Rs.50 per piece, it includes Excise Duty, VAT or CST, Customs duty on the imported raw materials, etc. So, currently you will have to pay multiple taxes on the same product. Let's take another example; the food you buy at hotels will have VAT as well as Service Tax.

CALCULATION OF GST:

It is definitely multi point tax but it is not cascading. Hence, 15% tax will not become 45% if it changes hands from Company to Distributor to Retailer, because, at each stage each channel member can take Input Tax Credit.

Example: If you buy Black Pepper @ Rs 60000 per Qtl. plus GST (15%) in Kochi, your purchase bill will have following components:

Basic Rate:	Rs. 60000
SGST @ 7.5%	Rs. 4500
CGST @ 7.5%	Rs. 4500
Total:	Rs. 69000

Now, if you sell the same to your distributor by adding Rs. 4000 per Qty margins in Kochi itself, it will look like:

Basic Rate:	Rs. 64000
SGST @ 7.5%	Rs. 4800
CGST @ 7.5%	Rs. 4800
Total:	Rs. 73600

So, you shall be charged incremental SGST of 800 (4800-4000) and CGST of 800 (4800-4000) and now your distributor owns material @ 73600 (64000 + 9600)

If your distributor keeps Rs. 5000 margin and sells the same to retailer. His bill looks like:

Basic Rate:	Rs. 69000
CGST @ 7.5%	Rs. 5175
SGST @ 7.5%	Rs. 5175

He shall be entitled for ITC on SGST @ Rs 375 (5175-4800) and CGST @ Rs. 375 (5175-4800).Hope this simplifies. In case of interstate sale or stock transfer, it shall follow IGST way. In this case also, IGST is fully entitled for Input Tax Credit.

MODELS OF GST

There are three prime models of GST:

1. GST at Central (Union) Government Level only
2. GST at State Government Level only
3. GST at both, Union and State Government Levels

APPLICATION OF GST

GST is a consumption based tax/levy. It is based on the "Destination principle." GST is applied on goods and services at the place where final/actual consumption happens. GST is collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale.

Chart: 1: Applicability and mechanism of GST

CHALLENGES TO IMPLEMENT GST IN INDIA

The introduction of Goods and Services Tax (GST) is one of the biggest tax reforms for India since 1947. GST is not just a tax change but it will benefit the economy as a whole and have far-reaching impact on businesses.

The current challenges:

GST is meant to simplify the Indian indirect tax regime by replacing a host of taxes by a single unified tax, thereby subsuming central excise, service tax, VAT, entry tax, etc. However, there is a plethora of challenges before the government for its successful implementation. Some of these are highlighted below:

1. The GST Constitutional Amendment Bill was passed by the Lok Sabha in May 2015. However, the government faced tremendous political set-backs and failed to get it passed in the Rajya Sabha during the monsoon and the winter sessions last year.
2. Once this is achieved, another Herculean task would be to get the GST Bill passed by the respective state governments in state assemblies. The government would also be required to put the GST bill in the public domain and give sufficient time to all stakeholders to comprehend and give their views on the bill.
3. A large part of the success of GST depends on two prominent factors – 'RNR' and 'threshold limit' for GST. RNR, i.e. the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. Needless to mention, RNR will impact India Inc adversely, if it is unduly higher than the present tax structure. Based on the study conducted by National Institute of Public Finance and Policy (NIPFP), RNR was decided at 27 percent. However, recently the Economic Advisor Panel recommended an RNR of 15 percent to 15.5 percent, i.e. a lower tax rate of 12 percent and a standard tax rate of 17 percent to 19 percent.
4. Further, the threshold limit of turnover for dealers under GST is another bone of contention between the government and the Empowered Committee, aiming to broaden the tax base under GST.
5. Another factor that will impact the success of GST is the robust IT backbone connecting all state governments, trade and industry, banks and other stakeholders on a real-time basis. The government has already incorporated an SPV viz. – Goods and Services Tax Network (GSTN), which has to develop a GST portal – front-end system for trade and industry and back-end system for all government agencies. GSTN will ensure technology support for registration, return filing, tax payment, IGST settlement, MIS and other dashboards on GST portal to all the stakeholders.
6. GST is quite different from the existing indirect taxation system in the country. For effective implementation of GST, tax administration staff – both at central and state levels – would require to be trained properly in terms of concept, legislation and procedure. The tax administration staff would also need to change their mindset, approach and attitude towards the tax payers. And for this, they would have to 'learn, unlearn, and relearn' the GST not only in letter but in spirit too.
7. As per the Constitutional Amendment Bill placed in the Lok Sabha, it was proposed that states would be allowed to levy an additional 1% non-vatable tax on inter-state supply of goods for the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while a few others criticised the same.
8. The taxing events of 'manufacture under central excise', 'sale under VAT' and 'provision of service under service tax' will converge into one taxing event of 'supply' under GST, i.e. GST will be levied on the event of supply of goods or services. The 'Place of Supply Rules' will thus form an important factor to determine the place of provision of goods or services.

These are some of the major challenges before the government and the industry, ahead of the actual implementation of GST.

Reference:

1. Satya Poddar, Ehtisham Ahmad, GST Reforms and Intergovernmental Considerations in India, Working Paper No.1/2009-DEA, March 2009, Department of Economic Affairs Ministry of Finance, Government of India.
2. Sankhanath Bandyopadhyay, Goods and Services Tax: Challenges and Opportunities,
3. http://www.cbgaindia.org/files/featured_articles/Goods%20&%20Services%20Tax.pdf
4. Shakir Shaik, S.A.Sameera, C.Firoz. Does Goods and Services Tax (GST) Leads to Indian Economic Development?, IOSR Journal of Business and Management, Volume 17, Issue 12 .Ver. III (Dec. 2015), PP 01-05
5. Sacchidananda Mukherjee, Present State of Goods and Services Tax (GST) Reform in India, Working Paper No. 2015-154, September 2015, National Institute of Public Finance and Policy, New Delhi.
6. G. Raghuram, K.S. Deepa. Goods and Services Tax: The Introduction Process, Working Paper No.2015-03-01, March 2015, INDIAN INSTITUTE OF MANAGEMENT AHMEDABAD.
7. Goods and Service Tax in India – Challenges and Opportunities Article in SSRN Electronic Journal, September-2010, DOI: 10.2139/ssrn.1682260
8. Girish Garg, Basic Concepts and Features of Good and Service Tax In India, International Journal of scientific research and management, Volume-2, Issue-2, Pages 542-549,2014.
9. Monika Sehrawat et al "GST IN INDIA: A KEY TAX REFORM" International Journal of Research – Granthaalayah, Vol. 3, No. 12(2015): 133-141.

10. http://caknowledge.in/why-gst-for-india-challenges-for-success-in-india/
11. http://www.onlinegst.in/challenges-for-gst-implementation/
12. http://taxguru.in/goods-and-service-tax/challenges-success-goods-service-tax-gst-india.html
13. http://www.financialexpress.com/article/fe-columnist/gst-unified-tax-myriad-challenges/23154/
14. http://www.relakhs.com/gst-goods-services-tax-in-india/
15. http://www.prsindia.org/billtrack/the-constitution-122nd-amendment-gst-bill-2014-3505/
16. https://www.icsi.edu/portals/70/GST%20-ICSI%20(28%2002.pdf