GST- Issues,Concerns and Possible Solutions

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Abstract

Indian parliament on 3rd August 2016 passed the landmark Goods and Services Tax (GST) bill, which is being described as the country's most transformative tax reform since independence. The GST Bill, officially known as 'The Constitution (One Hundred and Twenty-Second Amendment) Bill', aims at streamlining the country's fragmented tax system with a single levy. The idea behind GST is to reform and overhaul the indirect tax regime, and provide tax set-offs across the production and delivery value chain by amalgamating a large number of Central and State taxes into a single tax.

Keywords: *GST, CGST, SGST, Inflation, and VAT*

Introduction

Indian parliament on 3rd August 2016 passed the landmark Goods and Services Tax (GST) bill, which is being described as the country's most transformative tax reform since independence. The GST Bill, officially known as 'The Constitution (One Hundred and Twenty-Second Amendment) Bill',aims at streamlining the country's fragmented tax system with a single levy. The idea behind GST is to reform and overhaul the indirect tax regime, and provide tax set-offs across the production and delivery value chain by amalgamating a large number of Central and State taxes into a single tax. This would mitigate cascading or double taxation in a major way and pave the way for a common national market. The biggest advantage would be for consumers in terms of a reduction in the overall tax burden on goods, which is currently estimated at 25% to 30%. It would facilitate free movement of goods from one state to another without stopping at state borders for hours for payment of state tax or entry tax and reduction in paperwork to a large extent. Introduction of GST would also make Indian products competitive in the domestic and international markets. It would reduce transaction costs and simplify taxation procedure.

While some experts laud GST as a game changer, many are skeptical about its implementation from July 2017, Industrial bodies (CII, FICCI, ASSOCHAM) and tax experts have raised apprehensions regarding input tax credit for integrated GST, expected to prune of exemptions, increase in compliance costs and lack of trained staffs for effective and timely implementation of GST. In their views, businesses such as IT, supply chain, sales and marketing need to adapt themselves within the next seven months for the new tax regime to meet the deadline. Amidst these divergent views, the present paper aims to address the issues, concerns and possible solutions for effective implementation of GST.

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Objectives of GST:-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. The simplicity of the tax should lead to easier administration and enforcement. The main objectives of GST are:

1. Ensuring availability of input credit across the value chain
2. Minimising cascading effect of taxation
3. Simplification of tax administration and compliance
4. Harmonisation of tax base, laws, and administration procedures across the country
5. Minimising tax rate slabs to avoid classification issues
6. Prevention of unhealthy competition among states
7. Increasing the tax base and raising compliance

Problems in the Present Structure
The present Indirect structure is marked with following problems:

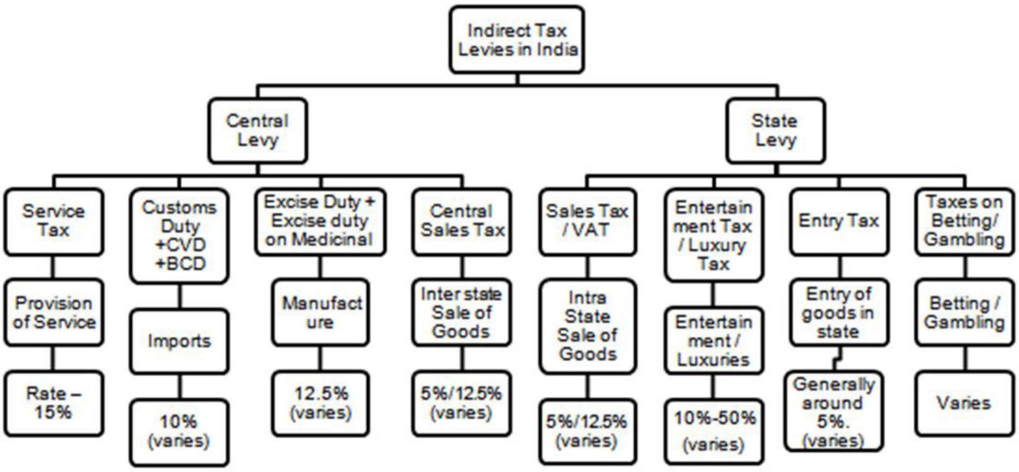

Figure No 1: Indirect Tax structure

GST shall subsume the following taxes in the times to come once the law is in force:

Salient features of the proposed GST model
Based on reports of Empowered Committee the key features of the proposed GST model are summarized below:

1. Aligned with the federal structure of the Indian government, GST model is proposed to be a dual structure (like in Canada) to be levied and collected by the Union government [referred to as Central GST (CGST)] and respective State governments [referred to as State GST (SGST)]. This dual GST model would be implemented and governed by one CGST/IGST statute applicable across the country, SGST statutes for each State, common rules determining valuation, place of supply, place of origin etc. This would imply that the Centre and the States would have concurrent jurisdiction for the entire value chain and the basic principles of law such as chargeability, a definition of the taxable event and taxable person, the measure of levy including valuation provisions, the basis of classification, etc. shall be uniform across State statutes. It has been reported that draft laws are already ready and under internal discussions. Also, various allied rules are in the process of being drafted and finalized.

2. CGST and SGST would be comprehensively applicable to all goods and services to the final consumer (retail level), reflecting the tax base of a typical consumption VAT. Thus, CGST and SGST would be applicable to all transactions involving supply of goods and services made for a consideration (except alcoholic liquor for human consumption) and the exempted goods and services, goods which are outside the purview of GST and the transactions which are below the prescribed threshold limits. Based on recommendations of both the 13th Finance Commission and Empowered Committee, GST on following products shall be levied from a date to be notified by the GST Council

- Petroleum Crude
- High-Speed Diesel
- Motor Spirit (commonly known as Petrol)
- Natural Gas
- Aviation Turbine Fuel

3. GST will be structured on the destination principle so that the tax base shifts from production to consumption whereby imports will be liable to tax and exports will be relieved of the burden of GST. Consequently, revenues will accrue to the State in which the consumption takes place or is deemed to take place.

4. Taxes paid on input goods/services against CGST shall be allowed to be utilized as input tax credit (ITC) against output tax liabilities under CGST and the same principle applies to SGST. Cross-utilization of input tax credit between the Central GST and the State GST would not be allowed except in case of inter-state supply of goods and services. Therefore, a taxpayer or exporter shall be required to maintain separate details in books of account for utilization or refund of credit.

5. In order to maintain uninterrupted credit chain, CST would be phased out in case of inter-state transactions of taxable goods. On such transactions, Centre would levy Integrated GST (referred to as IGST which would be CGST plus SGST) with appropriate provision for consignment or stock transfer of goods and services. The inter-state seller will pay IGST on value addition after adjusting available credit of IGST, CGST, and SGST on his purchases.

The importing dealer will claim the credit of IGST while discharging his output tax liability in his own State. The relevant information will also be submitted to the Central Agency which will act as a clearing house mechanism, verify the claims and inform the respective governments to transfer the funds.

6. A uniform threshold across all States and Union territories is being considered with adequate compensation for the States (particularly, the States in North-Eastern Region and Special Category States) where lower threshold had prevailed in the VAT regime.

Thus, the benefits of GST Bill implementation can be summarised as follows

- The tax structure will be made lean and simple
- The entire Indian market will be a unified market which may translate into lower business costs. It can facilitate seamless movement of goods across states and reduce the transaction costs of businesses.
- It is good for export oriented businesses. Because it is not applied for goods/services which are exported out of India.
- In the long run, the lower tax burden could translate into lower prices on goods for consumers.
- The Suppliers, manufacturers, wholesalers and retailers are able to recover GST incurred on input costs as tax credits. This reduces the cost of doing business, thus enabling fairer prices for consumers.
- It can bring more transparency and better compliance.
- The number of departments (tax departments) will reduce which in turn may lead to less corruption
- More business entities will come under the tax system thus widening the tax base. This may lead to better and more tax revenue collections.
- Companies which are under the unorganized sector will come under the tax regime.

Impact on inflation

Under the proposed GST, effective tax rate on goods (comprising around 70-75 per cent of the CPI basket) will decline.A significant proportion (35-40 per cent) of goods (majorly agriculture products) are not subject to tax and we expect a status quo in future.

At present, services-oriented components constitute 25-30 per cent of the CPI basket with a major share belonging to housing, transport and communication sector . Service tax is not imposed on certain (12 per cent of the CPI basket) services and these services are expected remain exempt under GST regime. A hike in the tax rate on services is unlikely to have any material direct impact on CPI.

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