



IMPLEMENTATION OF GOODS AND SERVICE TAX IN INDIA 2016: CHALLENGES AND OPPORTUNITIES

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Abstract: *“Goods and Service Tax (GST) is a comprehensive tax levy on manufacture/producer sale and consumption of goods and service at a national level. GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set-of benefits from the producer’s/ service provider’s point up to the retailer’s level where only the final consumer should bear the tax”. The ‘flawless’ GST in the Indian context of federal structure would optimise efficiency, equity and effectiveness among the users. The ‘flawless’ GST is designed as a consumption type destination VAT based on invoice-credit method. This empirical study (paper) is an attempt to find the implementation of goods and service tax in India 2016 and to some challenges and opportunities of GST.*

Key words: VAT, GST, Challenges, Opportunities, Manufacturer, Sales

INTRODUCTION

In the present economic era India is ready to roll into the government especially GST from April 1, 2016. The formal presentation of GST will change the market progress and it will quite interesting to see how the business enterprises and companies will aware to the new tax regime. Manufacturers will be able to have a similar of relief from multiple taxation and bureaucratic interventions in marketing of their products. Manufacturing the goods and proper Marketing, Producing and Selling will in the opinion of business experts will be bit inconvenient free and save time as well as energy of the manufacturer and producers on effective deliverables. The GST is a value added tax to be levied on all goods and services throughout India. The revenue generated from GST will be shared between the States and Centre in a definite ratio to be agreed upon by the States and Centre. GST levied on Inter-State transactions will be shared by the States and Centre. Branch transfers too are subject to IGST (Inter State GST).

This article attempts to consider the feasibility and formal presentation of GST in the middle of a financial year by analysing the pro and cons and practical issues.



'G' – Goods

'S' – Services

'T' – Tax

“Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level. GST is a tax on goods and services with value addition at each stage having comprehensive and continuous chain of set-of benefits from the producer's or service provider's point up to the retailer's level where only the final consumer should bear the tax.”

HISTORICAL BACKGROUND OF GST

In 2000, the government of India started discussion on GST by setting up an empowered committee. The committee was given the task of designing the GST model and overseeing the IT back end preparedness for its rollout. In 2006 GST was introduced and the empowered committee of State Finance Ministers released its first discussion paper on GST in November 2009 than it effect on April 1, 2010. In 2011 the cabinet of India approved the Constitutional Amendment Bill and placed it before the Parliament. This amendment was further referred to the Standing Committee constituted for the specific purpose. In 2012 The Standing committee placed negative list and provision of Service Rules. 2013 Three sub-committees were formed. Their chief work was to sort out the contentious issues. These sub-committees after deliberations submitted the report to the Standing Committee and the amended bill was sent to the States for consideration. 2014 the Finance Minister Releases the funds to compensate the States and Constitution Amendment Bill is introduced in the Lok Sabha. 6th may 2015, the Lok Sabha passed the much delayed constitutional amendment bill to introduce Goods and Service Tax Finance Minister Arun Jaitly vowed to compensate states for any revenue loss and assured that the new uniform indirect tax rate will much less than 27% recommended by an expert panel. The minister said, GST, which is proposed to be implemented from April 1 2016, will subsume excise, service tax, state VAT, entry tax, octroi and other state levies. It would provide great relief to the already tired taxpayers.

Experts of business and the business community feels that the new policy will broaden the tax base bring up a common market across the entire country and lower the cost of operations. Many hitches were tackled by the Government and lot of parleys with the



stakeholders were held for removing the uncertainty felt by business people with reference to the implementation of GST and the direct and indirect impact on the companies and market at large.

REVIEW OF LITERATURE

Keshap PK (2015) in his article entitled on "Goods and Service Taxes in India" it focuses on GST policy will replace multiple indirect taxes with a single tax. The present Study opines the rolling out of GST will boost India's GDP by 0.9 to 1.7%. In addition, it provides an efficient way to mobilise revenue and reduces the fiscal deficit in business. GST will also help ease the burden of multiple tax compliance which in turn will boost the manufacturing and production and lower the cost component as well as tax implications. GST will make the taxation process and compliance procedure easier, effective and business friendly.

GirishGarg (2014) in his paper entitled "Basic Concepts and Features of Goods and Service Tax in India". GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST is synonymous 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.

MadhukarN.Hiregange&K.S.Naveen Kumar (2016) in their study "Experience of Implementing VAT in all States across India", during 2003-07 would provide valuable direction for successful GST implementation. The transition should be smooth and not difficult. As the Government keeps its hope alive of bringing GST from 1st October 2016, the study focuses that it would be a myth and not a reality, considering the practical challenges ahead. In spite of this if the Government forces the new law in the middle of the year, it would probably have a limited success other than bringing untold miseries to the tax payer. The possibility of partial acceptance as in VAT could also be the result.

OBJECTIVES OF THE STUDY

1. The primary goal of this study is to examine how the implementation of Goods and Service Tax in India, and is in the interest of various stakeholders for accelerating Indian Economy.
2. To study GST as a Broad-Based Comprehensive Indirect Tax.



3. To study GST Challenges and Opportunities.
4. To create awareness amongst various stakeholders regarding Implementation Of GST and suitable suggestions about GST.

METHODOLOGY

This study is based on secondary data's. The information has been collected from government reports, books, journals, magazines, newspaper and websites.

LIMITATION

This is a conceptual study it supported more by facts than by numerical data. The study is further limited to the discussion of the possibilities of implementation of Goods and Service Tax in India for the International Competitiveness.

NEED FOR GST

Introduction of a GST to replace the existing multiple tax structures of Centre and State taxes are not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of goods and services often requires splitting of transaction values into value of goods and services for taxation, which leads to greater complexities, administration and compliances costs. Integration of various taxes into a GST system would make it possible to give full credit for inputs taxes collected. GST, being a destination-based consumption tax based on VAT principle, would also greatly help in removing economic distortions and will help in development of a common national market.

Despite the success of VAT, there are still certain shortcomings in the structure of VAT, both at the Centre and at the State level.

A. Justification at the Central Level

- I. At present excise duty paid on the raw material consumed is being allowed as input credit only. For other taxes and duties paid for post-manufacturing expenses, there is no mechanism for input credit under the Central Excise Duty Act.
- II. Credit for service tax paid is being allowed manufacturer/ service provider to a limited extent. In order to give the credit of service tax paid in respect of services consumed, it is necessary that there should be a comprehensive system under which both the goods and services are covered.



- III. At present, the service tax is levied on restricted items only. Many other large number of services could not be taxed. It is to reduce the effect of cascading of taxes, which means levying tax on taxes.

B. Justification at the State Level

- i. A major defect under the State VAT is that the State is charging VAT on the excise duty paid to the Central Government, which goes against the principle of not levying tax on taxes.
- ii. In the present State level VAT scheme, Cenvat allowed on the goods remains included in the value of goods to be taxed which is a cascading effect on account of Cenvat element.
- iii. Many of the States are still continuing with various types of indirect taxes, such as luxury tax, entertainment tax, etc.
- iv. As tax is being levied on inter-state transfer of goods, there is no provision for taking input credit on CST leading to additional burden on the dealers.

MODEL OF GST

The dual GST model proposed by the Empowered Committee and accepted by the Centre will have dual system for imposing the tax. GST shall have two components i.e.

- (i) Central GST
- (ii) State GST

Central Excise duty, additional excise duty, services tax and additional duty of customs (equivalent to excise), state VAT entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST

GST - SALIENT FEATURES

- It would be applicable to all transactions of goods and service.
- It to be paid to the accounts of the Centre and the States separately.
- The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
- Cross utilization of ITC between the Central GST and the State GST would not be allowed except in the case of inter-State supply of goods.



- The Centre and the States would have concurrent jurisdiction for the entire value chain and for all taxpayers on the basis of thresholds for goods and services prescribed for the States and the Centre.
- The taxpayer would need to submit common format for periodical returns, to both the Central and to the concerned State GST authorities.
- Each taxpayer would be allotted a PAN-linked taxpayer identification number with a total of 13/15 digits.

CHARGEABILITY OF TAX UNDER GST

- It will be replacement of ED and other taxes.
- There will be two parallel Statutes – one at the Centre and other under the respective State GST Act – governing the tax liability of the same transaction.
- All the items of goods and services are proposed to be covered and exemptions will be granted to few selected items.
- After introduction of GST, all the traders will be paying both the types of taxes i.e. CGST and SGST.

TAXABLE EVENT

Following questions arises:

- At what point of time, the tax will be levied?
- Will TE covers both i.e. supply of goods and rendering of services?
- What will be the nature of TE?
- Will it not involve new language and terminology?
- What impact the change in TE can have?
- GST is proposed to be levied by both the CG and SGs. How will it be defined under CGST and SGST?

TAXABLE PERSON

- It will cover all types of person carrying on business activities, i.e. manufacturer, job-worker, trader, importer, exporter, all types of service providers, etc.
- If a company is having four branches in four different states, all the four branches will be considered as TP under each jurisdiction of SGs.
- All the dealers/ business entities will have to pay both the types of taxes on all the transactions.



- A dealer must get registered under CGST as it will make him entitle to claim ITC of CGST thereby attracting buyers under B2B transactions.
- Importers have to register under both CGST and SGST as well.

SUBSUMING OF EXISTING TAXES

The sub-summation should result in free flow of tax credit in intra and inter-State levels so that unrelated taxes, levies and fees are not be subsumed under GST.

TAXES THAT MAY OR MAY NOT BE SUBSUMED

There are few other indirect taxes that may or may not be subsumed under the GST regime as there is no consensus among States and Centre & States –

- Purchase tax
- Stamp Duty
- Vehicle Tax
- Electricity Duty
- Other Entry taxes and Octroi

RATE OF TAX

- There will be a two-rate structure –a lower rate for necessary items and items of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items.
- For CGST relating to goods, the States considered that the Government of India might also have a two-rate structure, with conformity in the levels of rate with the SGST. For taxation of services, there may be a single rate for both CGST and SGST.
- It will be total of the rate as applicable under CGST & SGST.
- It is understood that the Government is considering pegging the revenue neutral rate of GST at a rate between 18% to 22%. This represents the aggregate of CGST and SGST payable on the transaction. However, it may be noted that at this stage, the Government is yet to indicate whether the revenue neutral rate of tax on goods and services would be the same.

WHAT WILL BE OUT OF GST?

- Levies on petroleum products
- Levies on alcoholic products
- Taxes on lottery and betting



- Basic customs duty and safeguard duties on import of goods into India
- Entry taxes levied by municipalities or panchayats
- Entertainment and Luxury taxes
- Electricity duties/ taxes
- Stamp duties on immovable properties
- Taxes on vehicles

EXEMPTION OF GOODS AND SERVICES

- Concept of providing threshold exemption of GST
- Scope of composition and compounding scheme under GST
- Items of GS to be exempt
- Treatment for goods exempt under one state and taxable under the other

GST ON EXPORT AND IMPORT

- GST on export would be zero rated
- Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and the tax revenue in case of SGST will accrue to the State where the imported goods and services are consumed. Full and complete set-off will be available on the GST paid on import on goods and services.

INTER-STATE TRANSACTIONS OF GOODS & SERVICES

- The existing CST will be discontinued. Instead, a new statute known as IGST will come into place. It will empower the GC to levy and collect the tax on the inter-state transfer of the GS.
- The scope of IGST Model is that Centre would levy IGST which would be CGST plus SGST on all inter-State transactions of taxable goods and services 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 Exporting State will transfer to the Centre the credit of SGST used in payment of IGST. The Importing dealer will claim credit of IGST while discharging his output tax liability in his own State. The Centre will transfer to the importing State the credit of IGST used in payment of SGST. 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.

ADVANTAGES OF IGST MODE

- a) Maintenance of uninterrupted ITC chain on inter-State transactions.
- b) No upfront payment of tax or substantial blockage of funds for the inter-State seller or buyer.
- c) No refund claim in exporting State, as ITC is used up while paying the tax.
- d) Self-monitoring mode
- e) Level of computerization is limited to inter-State dealers and Central and State Governments should be able to computerize their processes expeditiously.
- f) As all inter-State dealers will be e-registered and correspondence with them will be by e-mail, the compliance level will improve substantially.
- g) Model can take 'Business to Business' as well as 'Business to Consumer' transactions into account.

REGISTRATION UNDER GST

- Under GST registration, it is likely to be linked with the existing PAN.
- The new business identification number was likely to be the 10-digit alphanumeric PAN, in addition to two digits for state code and one or two check numbers for disallowing fake numbers. The total number of digits in the new number was likely to be 13-14.

GST INVOICE

- In an invoice based VAT system, the issue of invoices in the proper form is an essential part of the procedure for imposing and enforcing the VAT.
- An invoice is also required by the tax authorities to audit the collection of VAT.
- What is required is –
 - The law should require a supplier making a taxable supply to another taxable person to provide a VAT invoice with that supply or the payment for it.
 - The VAT invoice should be standardised across all states so as to contain a minimum of information about the supply being invoiced.



PERIODICITY OF GST PAYMENT

- Since the amount of VAT collected by a dealer is related to his turnover, the dealer is likely to accumulate a huge VAT liability within a very short period. Hence, it is necessary to minimize the risk of payment defaults by dealers, in particular fly-by-night operators.
- Given that the collection under VAT will serve as the dominant source of revenue for state government, it is imperative to provide for a collection mechanism which would ensure a period flow of revenue to the exchequer subject to a minimum compliance burden on taxpayers and risk of revenue loss. Therefore, VAT period should be a calendar month.

CHALLENGES

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.

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.

3. With respect to number of enactments of statutes:

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



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. 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.

OPPORTUNITIES

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 centre level indirect tax levies that are compulsory one after another on the supply chain till the time of its utilization.

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.

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.

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.

5. One Point Single Tax

Another feature that GST must hold is it should be 'One Point Single 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. 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.

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.

SUGGESTIONS FOR EFFECTIVE IMPLEMENTATION

Some suggestions for better administrative machinery to handle the implementation of Goods and Services Tax Act in India are:

- Standardisation of systems and procedures.
- Adequate training for both tax payers and tax enforcers.
- Re-organisation of administrative machinery for GST implementation.
- Building information technology backbone – the single most important initiative for GST implementation.
- Uniform Implementation of GST should be ensured across all states (unlike the staggered implementation of VAT) as many issues might arise in case of transactions between states who comply with GST and states who are not complying with GST.

CONCLUSION

- The taxation of goods and services in India has, hitherto, been characterised as a cascading and distortionary tax on production resulting in mis-allocation of resources and lower productivity and economic growth. It also inhibits voluntary compliance. It is well recognized that this problem can be effectively addressed by shifting the tax burden from production and trade to final consumption. A well designed destination-based value added tax on all goods and services is the most elegant method of eliminating distortions and taxing consumption. Under this structure, all different stages of production and distribution can be interpreted as a mere tax pass-



through, and the tax essentially 'sticks' on final consumption within the taxing jurisdiction.

- A 'flawless' GST in the context of the federal structure which would optimize efficiency, equity and effectiveness. The 'flawless' GST is designed as a consumption type destination VAT based on invoice-credit method.

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