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GST IN INDIA: A Milestone in Indirect Tax reform

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Abstract

This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. Here stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has to be detailed discuss in this paper as the background, silent features and the impact of GST in the present tax scenario in India. GST is the only indirect tax that directly affects all sectors and sections ofour economy. Ignorance of law is no excuse but is liable to panel provisions, hence why not start learningGST and avoid the cost of ignorance. Therefore, we all need to learn it whether willingly or ascompulsion. The goods and services tax (GST) is aimed at creating a single, unified market that willbenefit both corporate and the economy. To make "One Nation, One Tax" a reality, the government is training its officers on taxation of services. GSTN, the technology backbone for the reform, has a massive IT mandate of securely handling mammoth volumes of data that GST will generate. The legislation cuts across all enterprises, requiring them to relook at their business models, business policies, and procedures. Several countries implemented this tax system followed by France, the firstcountry 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 introduced in India on 1 July 2017 and applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill. 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 is to maintain a commonality between the basic structure and design of the CGST, SGST and IGST between states .In this article, I have started with the introduction, in general of GST and have tried to highlight the objectives the GST is trying to achieve. Thereafter, I have discussed the possible challenges and threats; and then, opportunities thatGST bring before us to strengthen our free market economy.

Key Words: GST, CGST, SGST, IGST,UTGST,VAT, INPUT CREDIT

I. History of Taxation

What is Tax?

The word tax is derived from the Latin word '*taxare'* meaning to estimate. A tax is not a Voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative Authority" and is any contribution imposed by government whether under the name of toll,

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Tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name."1 The first known system of taxation was in Ancient Egypt around 3000 BC -2800 BC in the first dynasty of the Old Kingdom. Records from that time show that the pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. In Genesis2, it states "But when the crop comes in, gives a fifth of it to Pharaoh. The other four-fifths you may keep as seed for the fields and as food for yourselves and your households and your children."

In India, the tradition of Taxation has been in force from ancient times. Itfinds its references in many ancient books like 'Manu Smriti '4 and 'Arthasastra'. The Islamic rulers imposed jizya 5. It was later on abolished by Akbar. However, Aurangzeb, the lastprominent Mughal Emperor, levied *jizya* on hismostly Hindu subjects in 1679. Reasons for thisare cited to be financial stringency and personalinclination on the part of the emperor, and apetition by the *ulema* 6. The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favour of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct7 and Indirect taxes8. Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

2. Evolution of GST Concept &Major Milestones in Indirect Taxreform-

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-existingCentral excise duty at the national level and the sales tax system at the State level, then theGoods and Services Tax (GST) will indeed be an additional important perfection – the next logical step – towards a widespread indirect tax reforms in the country.

Stages of Indirect Tax Reform-

1974 Report of LK Jha Committee suggested VAT.

1986 Introduction of a restricted VAT called MODVAT -The reform process of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister Subsequently, Manmohan Singh,the then Finance Minister under P V Narasimha Rao, initiated early discussions on a Value Added Tax at the state level.

1991 Report of the Chelliah Committeerecommends VAT/GST and recommendations accepted by Government.

1994 Introduction of Service Tax.

1999 Formation of Empowered Committee on state VAT and A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between the then Prime Minister Atal Bihari Vajpayeeand his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan.

2000 Implementation of uniform floor Sales tax rates Abolition of tax related incentives granted by States.

In 2002, the Vajpayee government formed a task force under Vijay Kelkar to recommend tax reforms.

2003 VAT implemented in Haryana in April 2003.
2004 Significant progress towards CENVAT.
2005-06 VAT implemented in 26 more states and In 2005, the Kelkar committee recommended rolling out GST as suggested by the 12th Finance Commission.
2007 First GST stuffy released By Mr. P. Shome in January.
2007 F.M. Announces for GST in budget Speech.
2007 CST phase out starts in April 2007.
2007 Joint Working Group formed and report submitted.
2008 EC finalizes the view on GST structure inApril 2008.
In May 2016, the Lok Sabha passed the Constitution Amendment Bill, paving way for GST. Finally in August 2016, the Amendment Bill was passed.

3. INTRODUCTION OF GST:-

Goods and service tax being a broad based, single comprehensive system of tax is in its Initial stage in India. Therefore the understanding of the concept of GST is important. Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India.

Initially, it was conceptualized that there would be a national level goods andservices 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 virtuallyeverything at a single rate, Indonesia has five positive rates, a zero rate and over 30 categoriesof exemptions. In China, GST applies only togoods and the provision of repairs, replacementand processing services. GST rates of some countries are given below. Country AustraliaFrance Canada Germany Japan Singapore Sweden New Zealand Rate of GST 10% 19.6% 5% 19% 5% 7% 25% 15% 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 servicesfor levying of tax. In other words, goods and services attract the same rate of tax. GST is amulti-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.GST replaced a slew of indirect taxes with a unified tax and is therefore set to reshape the Indian economy.

4. Objectives of the study

1) To study the tax reform & evolution of GST Concept in india.
2) To examine the mechanism of Goods and Services Tax.
3) To analyze the SWOT of GST implementation & GST Impact in India.

5. Limitations of the study -The study is restricted only to India although other countries have made great progress in this field, and Reform process varies from one country to another.
2) Therefore, due to unavailability of statistical information of GST in India, the views expressed are subject to change.

3) Since India Just implemented GST, a study of this kind besides creating awareness would also help in analyzing the pros and cons of GST and the important points that has to be kept in mind, it would affect different stakeholders differently.

6. Methodology-Data Collection Data has been obtained from Secondary sources like National & international Journals, Government reports, publications from various websites which focused on various aspects of Goods and Service tax.

7. 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, and petroleum products not be enclosed by GST as alcohol and tobacco areconsidered as Sin Goods, and governments do not like to allow free trade on these property.

8. CHALLENGES:-

8.1 The industry, at present, is struggling to get on with the destination-based tax from an origin-based tax structure. The shift from the previous tax regime and carry forward the input credits into GST is the biggest challenge that businesses are facing today in India.

8.2 With respect to Tax Threshold - The threshold limit for turnover above which GSTwould 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 alsoIncreases 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.

8.3Lack of Clarity on GST Provisions (Rules and Regulation)-Various provisions of GST are still ambiguous. Categorization of goods and services in various cases is still unclear. Provisions for anti-profiteering, as well as the now-deferred e-way bill, which tracks consignments across states, are unclear.

8.4 With respect to nature of taxes-The taxes that are generally included in GST 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.

8.5Increased compliance, with increase in the number of returns to be filed annually Businesses will need to file multiple returns, a minimum of 37 in most cases for assesses, and this can increase multifold in accordance with business models. Clients will need to ensure timely compliance by registered suppliers to ensure there is no loss of input credit. This will necessitate correct data and reports to fill

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accurate GST returns.

8.6 With respect to number of enactments of statutesthereare two types of GST laws, one at a centrelevel 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.

8.7 Preparedness of IT Systems--Various businesses are yet to map the accounting software and IT systems in line with the new tax provisions, to create GST invoices, and extract required reports. Tax and accounting professionals jointly need to ensure that their clients' current systems are compatible with their GST Service Provider (GSP).

8.8 With respect to Rates of taxation It is true that a tax rate should be devised inaccordance 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.

8.9Lack of skilled resources and need for re-skilling-With GST rates and their complexities only recently becoming a part of our policy framework, skilled staff with updated GST subject knowledge and training are not easily available. This has placed an additional work load on personnel across industries, and created an urgent need for additional GST-skilled resources to ensure swift implementation.

8.10 GST preparedness among clients is missing-Clients' understanding of GST provisions and its impact on their business is still at a nascent stage, and many are still identifying the locations and places they need to be registered in.These businesses are also assessing the mandated GST-compliance their relevant functional departments need to adhere to, including their Supply Chain, IT Systems, and Legal. With respect to tax management and InfrastructureIt depends on the states and the union how theyare going to make GST a simple one. Success ofany tax reform policy or managerial measures depends on the inherent simplifications of the system, which leads to the high conformity withthe administrative measures and policies.

9. OPPORTUNITIES:-

9.1 An end to cascading effectsThis 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.
9.2 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.
9.3 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.
9.4 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.

9.5 One Point Single Tax another feature that GST must hold is it shouldbe '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 theconsumers 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 GSTwould reduce the average tax burdens on the consumers.

9.7 Reduces the corruptionIt 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.

10. Benefits of GST

1. GST will bring one country one tax concept. This will prevent unhealthy competition among states. It will be beneficial to do interstate business.
2. GST eliminates the cascading effect of taxthereby reducing cost of product.
3. Many indirect taxes in state and central level included by GST, You need to pay a single GST Instead of all. For a businessman, GST will be a boon. No multiple taxes means compliance and documentation will be easy. Return filing, tax payment, and refund process will easy and hassle free.
4. Higher threshold for registration
5. Ensure better compliance due to aggregate tax rate reduces and the number of compliances is lesser under GST Regime.
6. Unorganized sector is regulated under GST
7. Composition scheme for small businesses.
8. . By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
9. Uniformity of tax rates across the states.
11. Simple and easy online procedure
12. As demand will grow naturally production will grow and hence it will increase gross domestic product. It is estimated that GDP will grow by 1-2% due to GST.
13. Prices of goods are expected to reduce in thelong run as the benefits of less tax burden would be passed on to the consumer.
14. GST will also help to build a transparent and corruption free tax administration.

11. Indirect taxes included under GST

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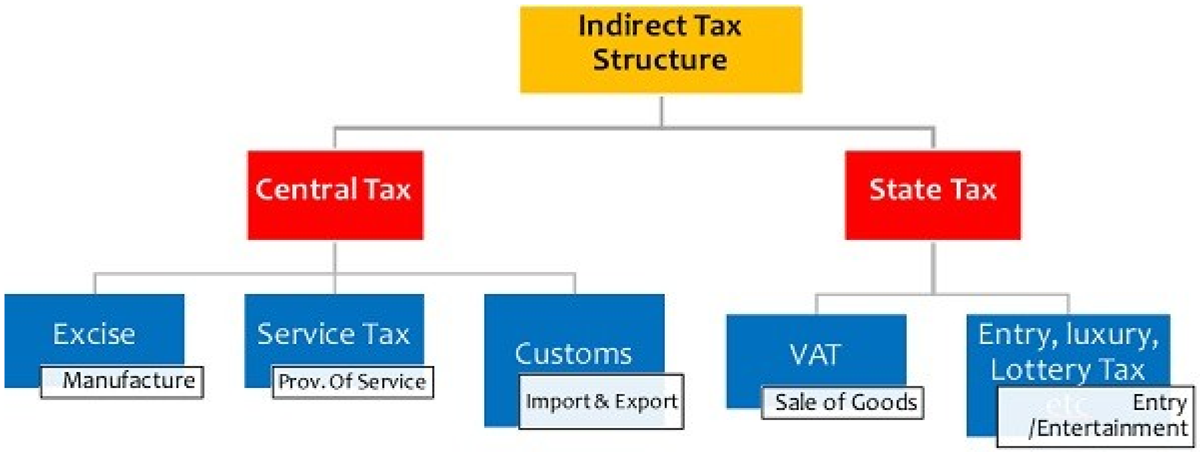

The following indirect taxes from state andcentral level now integrated with GST

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 countervailing Duty (CVD)
6. Special Additional duty of customs- (SAD)
7. Surcharges
8. Cess- The above taxes dissolve under GST; instead only CGST & SGST exists.

12. Impact of Goods and Service Tax-It is observed that inter-state sale of goods and services may avail input tax credit which will lead to removal of extra level warehousing in the supply chain, thereby leading to greater cost benefits which will be passed on to the consumers. Implementation of GST bill has a positive impact on manufacturers and distributors because the cascading effect is reduced and supply chain cost comes down. This not only reduces the final price on the goods but also increases the competitiveness of the industry along with profits and create a common market. And we observe that GST not only reduce the paper work but also increase compliance of manufacturers and distributors.

I. Food Industry-GST rate for products like hair oil, soaps and toothpaste has been lowered by 500-600 bps from the previous rates. The application of GST to food items have asignificant impact on those who are living undersubsistence level. But at the same time, acomplete exemption for food items woulddrastically shrink the tax base. Food includesgrains and cereals, meat, fish and poultry, milkand dairy products, fruits and vegetables, candyand confectionary, snacks, prepared meals forhome consumption, restaurant meals andbeverages. Even if the food is within the scope ofGST, such sales would largely remain exempt dueto small business registration threshold. Giventhe exemption of food from CENVAT and 4% VATon food item, the GST under a single rate wouldlead to a doubling of tax burden on food. Companies such as Colgate-Palmolive, HUL, Britannia, Heritage Foods etc will benefit from the move.

II. Pharma and healthcare Pharmaceutical products will see 12 per cent GST as against earlier rate of 10 per cent. Angel Broking believes companies will be able to pass on this full impact to the patients. The healthcare sector will remain exempt from the GST however the inputs by the healthcare sector will be taxed at 18 per cent leading to rise in the operating costs.

Companies like Dr Lal Pathlabs will benefit.

III. Consumer durables

White good players were previously taxed at 27 per cent (including 13.5 per cent VAT) against 28 per cent under the new GST regime. There are expectations that with GST coming in picture, there will be some increase in the prices of most consumer durable items. However, market analysts do not see any significant impact on the margins of the consumer durable companies post GST implementation.

One should keep an eye on companies like Crompton Greaves, Symphony, Whirlpool, Havells and Voltas.

IV.Telecom

The sector is facing severe pressure in the form of intense competition from Reliance Jio. Under the GST regime, telecom services will be taxed at 18 per cent as against 15 per cent earlier.There are expectations that it will work as a salt on the wound for the sector. Any price increase will further dampen the scenario. Bharti Airtel, Idea Celluar and Reliance Communication should be eyed on stock market.

V.Housing and Construction Industry- In India, construction and Housing sector need tobe included in the GST tax base becauseconstruction sector is a significant contributor tothe national economy. Under construction properties will be cheaper than read-to-move-in properties. The GST rate for an under-construction property is 18% but the effective rate on this kind of property will be around 12% due to input tax credits the builder will avail of.

VI. FMCG Sector-Despite of the economic slowdown, India's FastMoving Consumer Goods (FMCG) has grownconsistently during the past three – four yearsreaching to $25 billion at retail sales in 2008.Implementation of GST and opening ofForeign Direct Investment (F.D.I.) are expected tofuel the growth and raise industry's size to $95Billion by 2018.

VII. Real Estate-The real estate sector is one of the most pivotal sectors of the Indian economy, playing an important role in employment generation in India. The impact of GST on the real estate sector cannot be fully assessed as it largely depends on the tax rates. However, the sector will see substantial benefits from GST implementation, as it has brought to the industry much-required transparency and accountability.

VIII. Financial Services- In most of the countries GST is not charged onthe financial services. Example, In New Zealandmost of the services covered except financialservices as GST. Under the service tax, India hasfollowed the approach of bringing virtually allfinancial services within the ambit of tax whereconsideration for them is in the form of anexplicit fee. GST also include financial services onthe above grounds only.

IX. Information Technology enabled services- To be in sync with the best Internationalpractices, domestic supply of software shouldalso attract G.S.T. on the basis of mode oftransaction. Hence if the software is transferredthrough electronic form, it should be consideredas Intellectual Property and regarded as a service.And if the software is transmitted on media orany other tangible property, then it should betreated as goods and subject to G.S.T. 35According to a FICCI – Techno Report.Implementation of GST also help in uniform,simplified and single point Taxation and therebyreduced prices.

X. Impact on Small Enterprises There are three categories of SmallEnterprises in the GST regime.Those below threshold need not register for theGSTthose between the threshold and compositionturnovers will have the option to pay a turnoverbased tax or opt to join the GST regime. Those above threshold limit will need to bewithin framework of GST Possible downwardchanges in the threshold in some Statesconsequent to the introduction of GST may resultin obligation being created for some dealers. Inthis case considerable assistance is desired. Inrespect of Central GST, the position is slightlymore complex.

13. Justification of GST

With reference to the GST implication, it shows that the tax burden is
less in the GST system on all stages for manufacturer, dealer as well as the final consumer.
Where all the cascading effects of CENVAT, Service Tax would be removed and it clearly
shows that set off mechanism in the form of Input Tax Credit (ITC) there by reducing the 'tax
on tax' or tax burden which the final consumer has to bear this not only benefits the consumers but also industry, trade, agriculture, exports, imports etc. Tax burden also reduces in way of
subsuming all indirect taxes in GST and there will be transparent and complete chain of set
offs, this will help in widening the coverage of tax base and improve tax compliance leading to
higher revenues resulting in possibility of lowering average tax burden.

14. CONCLUSION:-

The overview of Goods and Service Tax (GST) gave an insight about the entire concept and
reducing tax burden, therefore it can be considered as a most logical step towards indirect tax
reforms in our country.
All sectors of the economy have benefits and impact with GST whether individual, industry,
trade, government departments, service sector, professionals, importers etc. It is a simple
mechanism yet can boost economy compared to the previous system also having uniform
and transparent system to all players than existing complexities. It is ready to integrate state
economies and boost the overall GDP as it reduces the tax burden making single unified
Indian market with growth dynamics and strong economy.
All sectors of economywhether the industry, business including Govt.
departments and service sector shall have to bearimpact 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... Oneof the biggest taxation reforms in India -- the Goods and Service Tax (GST) -Itintegrate State economies and boost overallgrowth. GST will create a single, unified Indianmarket to make the economy stronger. Expertssay that GST is likely to improve tax collectionsand Boost India's

economic development bybreaking tax barriers between States andintegrating India through a uniform tax rate.Under GST, the taxation burden will be dividedequitably between manufacturing and services,through a lower tax rate by increasing the taxbase and minimizing exemptions. Change is definitely never easy. The government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST before us, and who overcame the teething troubles to experience the advantages of having a unified tax system

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