Impact of GST on Centre-State Relations in India in Financial Terms

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ABSTRACT

This paper analysis of what the impact of Goods and Service Tax or GST is all set to be a game changer for the Indian economy. The waiting period is over on 8th September 2016 with the consent of the President to the Constitution (101stAmendment) Act 2016. The successful passing of the amendment has cemented the ways for introduction of the GST in the country. It would instantly enable the Union to exact expense on the offer of merchandise which has been in the space of the states, and the states correspondingly would have the capacity to demand assess on administrations which as of recently was generally in the area of the Union government. In this paper an attempt is made to study GST model with reference to central and state relations in financial terms.

GST in India is expected to be a destination based consumption based levy. GST stands for "Goods and Services Tax", and is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. Therefore it becomes essential to restructure the business and location depending upon the assessment of implication of GST on each type of transactions. The impact analysis and planning for restructuring can be done only after the draft law is released. Introduction of GST should thus rationalize tax content in product price, enhance the ability of companies to compete globally, and possibly trickle down to benefit the ultimate consumer. Since the dual GST is considerably different from the present indirect tax regime, a massive training initiative would be required at both federal and State levels to familiarize the respective administrations with the concepts and procedures of the dual GST.

Keywords: GST, *CGST, SGST, IGST, Centre- state, Input Tax Credit*

Introduction

The idea of moving towards the GST was first mooted by the then Union Finance Minister in his Budget for 2006-07. Initially, it was proposed that GST would be introduced from 1stApril, 2010. The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a roadmap and structure for the GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of the GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, the EC released its First Discussion Paper (FDP) on GST in November, 2009. This spells out the features of the proposed GST and has formed the basis for discussion between the Centre and the States so far. The Goods and Services Tax (GST) would be a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer.

Objectives

- To study the framework of the proposed tax structure with regard to the Centre- state transactions.
- To examine the prevailing tax structure and the proposed GST model in India.
- To study the impact of GST on Centre-State Relations.

GST and Centre-State Financial Relations

Currently, fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium, narcotics etc.) while the States have the powers to levy tax on sale of goods. In case of inter-State sales, the Centre has the power to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the originating States. As for services, it is the Centre alone that is empowered to levy service tax. Since the States are not empowered to levy any tax on the sale or purchase of goods in the course of their importation into or exportation from India, the Centre levies and collects this tax as additional duties of customs, which is in addition to the Basic Customs Duty. This additional duty of customs (commonly known as CVD and SAD) counter balances excise duties, sales tax, State VAT and other taxes levied on the like domestic product. Introduction of GST would require amendments in the Constitution so as to concurrently empower the Centre and the States to levy and collect the GST.

The assignment of concurrent jurisdiction to the Centre and the States for the levy of GST would require a unique institutional mechanism that would ensure that decisions about the structure, design and operation of GST are taken jointly by the two. For it to be effective, such a mechanism also needs to have Constitutional force.

Inter-State Sales

Although sales tax was applicable for those transactions (purchases and sales) taking place within the jurisdiction of the state territory, the same was used for inter- state sales as well. In order to regulate the taxation of inter- state sales between dealers or between dealers and consumers, a law was enacted in the Parliament designated as the Central State Tax (CST). The proceeds of inter- state tax was to be collected by the Centre but, with the introduction of CST, a rate of CST was to be levied on inter-state sales and the proceeds were to be kept with the State.

Initially the rate of CST was at one percent, the current rate stands at four percent. As CST was applicable to sales, inter-State movement of goods as consignment was not liable to any CST in the exporting State.

According to the recent amendment, the single- point of taxation- CST was replaced by the multi-point tax structure- Value Added Tax (VAT). VAT was structured in all Union and State territories. The State VAT eliminated all the complexities concerned to double taxation on the goods. The Input tax credit was made available to the manufacturers so as to reduce the burden of taxes. The services on the other hand, had different rates of taxes for specified services. Hence, the services were classified into one hundred categories. Also, the goods under CETA (Central Excise Tariff Act), 1985 are classified based on the HSN nomenclature, while the services are not classified on any such standardized basis.

Impact of GST on various fields

Consumers: Generally the purchase price would reduce as tax content of most products would come down. However if a product has evaded tax completely then it may find increase. Further those items which are now taxable where tax rate earlier was zero may be more expensive as exemption and zero rated lists may come down in the GST regime.

The tax paid would be transparent in the invoice given to the customer. No hidden taxes would have been paid. The difficult choice of paying more if bill demanded and less if without bill would over a period of time disappear as this is a self-policing system.

The free flow of trade (over a period of time) between states and throughout the country would provide more choice to the consumer.

Traders: The impact of tax on the wholesaler or retailer would be limited to the value addition. The tax paid at earlier stages (except SGST of other states) would be available as set off for payment of GST on supplies. Therefore traders would prefer to buy/ receive supplies with invoice. The tax payable as a percentage of the supply value would be small whereby the compliance would be more cost effective than evasion. Cost of products and services would reduce due to the cascading effect of tax being reduced. Traders in GST regime can concentrate on growth into large entities instead of remaining small and fragmented.

Manufacturers: There would be a saving in taxes absorbed at various stages of manufactures thereby reducing the cost of goods sold. This would make them more competitive both in domestic and international markets. The exports would be cheaper as taxes paid at earlier stages could be refunded. The difference between large manufactures and small would reduce. The indignity of harassments and bribe for honest manufacturers would substantially reduce over a period of time.

Service Providers: The present rate of tax on services is 14% (w.e.f 01.06.2015) which would be doubled in GST. This may seriously impact all the service providers especially who have long periods of realization. Those working on low margins may become unviable. The net tax payment maybe substantial as most advisory services the manpower costs is the maximum. Hardly any set off would be available. The goods used in providing the services would be eligible for credit. Hopefully the service exporters would see refunds coming promptly without a direct transaction cost. Present destination based to consumption based levy: Presently, service tax is levied at origin and is a destination based levy, the burden of which is borne by the end customer. Under GST, they would be taxed at the place of consumption.

Service tax-SGST levied by States: Under GST law, the service tax would be levied not just by Centre but also by the States who would be empowered to levy SGST by amendment to the Constitution of India. Taxes received by consuming State- If services are rendered from one State to another, then tax would ultimately go to the consuming State.

Centre-Government: The collection of Income tax would increase with increase disclosure. The country would as a whole reduce corruption and move up ethical chain gradually. The compensation of loss to the states on account of implementation of GST would be an outgo.

State-Government: The trading sector, manufacturing and service sector in the parallel economy would also get into the mainstream and pay taxes. This would lead to buoyant revenues over a period of time. The tax administration would be easier and cost of collection would be reduced.

The following are the salient features of the proposed GST system:

- The power to make laws in respect of supplies in the course of inter-state trade or commerce will remain with the central government. The states will have the right to levy GST on intrastate transactions, including on services.
- The administration of GST will be the responsibility of the GST Council, which will be the apex policy-making body for GST. Members of GST Council will comprise central and state ministers in charge of the finance portfolio.
- The threshold for levy of GST is a turnover of Rs. 1 million. For a taxpayer who conducts business in a north-eastern state of India the threshold is Rs. 500,000.
- The central government will levy IGST on inter-state supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- GST is defined as any tax on supply of goods and services (other than on alcohol for human consumption).
- Central taxes such as central excise duty, additional excise duty, service tax, additional custom duty and special additional duty, as well as state-level taxes such as VAT or sales tax, central sales tax, entertainment tax, entry tax, purchase tax, luxury tax and octopi will be subsumed in GST.

- A provision will be made for removing imposition of entry tax/ octopi across India.
- Entertainment tax, imposed by states on movies, theatre, etc., will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level will continue.
- Stamp duties, typically imposed on legal agreements by states, will continue to be levied.

CONCLUSION

The introduction of GST can soothe the current system of taxation system in India. The complexity of levying on different levels in administration can be made easier by a single arrangement. Moreover it can defeat the ill effects of current system of taxation in India. This system can be more transparent which can unlock the crucial obstacle of tax evasion. If successful, this step by the Government can bring a revolution in the economy of the country. It can be argued that this move from the Government can bring down the economy of the states individually, but the bill has recommended the levying of additional tax of value not exceeding 1% in case of interstate trade which is levied by Union but assigned by the state responsible for supply of goods & services. Excise duty, VAT, custom duty, Sales tax will be covered under this and stamp duties, taxes on alcohol, etc., will be excluded. So overall there is no scope of loss. The surveillance of the system is proposed to be conducted by the GST Council which will be the apex body for policy making consisting of state and centre minister with finance as background. From the view point of consumer as well as Government, this can be a major boon for a developing country like India.

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