GOODS AND SERVICE TAX (GST) ADVANTAGES AND DISADVANTAGES IN INDIA

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ABSTRACT

Goods and Service Tax (GST) is a comprehensive tax on supply of Goods and Services. Traditionally India's tax regime relied heavily on indirect taxes. Revenue from indirect taxes was the major source of tax revenue till tax reforms were undertaken during nineties. The major argument put forth for heavy reliance on indirect taxes was that the India's majority of population was poor and thus, widening base of direct taxes had inherent limitations. But, the Indian system of indirect taxation is characterized by cascading, distorting tax on production of goods and services which leads to hampering productivity and slower economic growth. There are endless taxes in present system few levied by Centre and rest levied by state, to remove this multiplicity of taxes and reducing the burden of the tax payer a simple tax is required and that is Goods and Service Tax (GST) This paper focuses on Goods and Service Tax (GST) in India advantages and disadvantages of content..

Key Word: *GST, Traditionally, direct taxes, distorting tax, simple tax, characterized,*

INTRODUCTION

The President of India approved the Constitution Amendment Bill for Goods and Services Tax (GST) on 8 September 2016, following the bill's passage in the Indian parliament and its ratification by more than 50 per cent of state legislatures. This law will replace all indirect taxes levied on goods and services by the central government and state government and implement GST by April 2017. The implementation of GST will have a far-reaching impact on almost all the aspects of the business operations in India. With more than 140 countries now adopting some form of GST, India has long been a stand-out exception. GST is a value-added tax levied at all points in the supply chain, with credit allowed for any tax paid on input acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner, with exemptions restricted to a minimum. In keeping with the federal structure of India, it is proposed that the GST will be levied concurrently by the central government (CGST) and the state government (SGST). It is expected that the base and other essential design features would be common between CGST and SGSTs for individual states. The inter-state supplies within India would attract an integrated GST (IGST), which is the aggregate of CGST and the SGST of the destination state.

GST would be levied on the basis of the destination principle. Exports would be zero-rated, and imports would attract tax in the same manner as domestic goods and services. In addition to the IGST in respect of supply of goods, an additional tax of up to 1 per cent has been proposed to be levied by the central government. The revenue from this tax is to be assigned to the origin states. This tax is proposed to be levied for the first two years or a longer period, as recommended by the GST Council in India. GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions. GST would bring in a modern tax system to ensure efficient and effective tax administration. It will bring in greater transparency and strengthen monitoring, thus making tax evasion difficult. While the process of implementation of GST unfolds in the next few months, it is important for industry to understand the impact and opportunities offered by this reform. GST will affect all industries, irrespective of the sector. It will impact the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales and pricing.[1]

SIGNIFICANCE OF GST

Our Constitution empowers the Central Government to levy excise duty on manufacturing and service tax on the supply of services. Further, it empowers the State Governments to levy sales tax or value added tax (VAT) on the sale of goods. This exclusive division of fiscal powers has led to a multiplicity of indirect taxes in the country. In addition, central sales tax (CST) is levied on inter-State sale of goods by the Central Government, but collected and retained by the exporting States. Further, many States levy an entry tax on the entry of goods in local areas.

This multiplicity of taxes at the State and Central levels has resulted in a complex indirect tax structure in the country that is ridden with hidden costs for the trade and industry. In order to simplify and rationalize indirect tax structures, Government of India attempted various tax policy reforms at different points of time. A system of VAT on services at the central government level was introduced in 2002. The states collect taxes through state sales tax VAT, introduced in 2005, levied on intra-state trade and the CST on inter-state trade. Despite all the various changes the overall taxation system continues to be complex and has various exemptions.

This led to the idea of "One nation One Tax" and introduction of GST in Indian financial system. This is simply very similar to VAT which is at present applicable in most of the states and can be termed as National level VAT on Goods and Services with only one difference that in this system not only goods but also services are involved and the rate of tax on goods and services are generally the same.[2]

LITERATURE REVIEW

Ehtisham Ahmed and Satya Poddar (2013) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction will provide simplier 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.[3]

Nitin Kumar (2014), studied "Goods and Service Tax in India-A way forward" and found that GST will be levied on all the goods and services except those exempted, dual model of GST will be there, which will include Central GST (CGST) collected by Center and State GST (SGST) collected by State. Central tax such as Central excise tax, additional excise duty, service tax, surcharges, countervailing duty, special additional duty of customs and state tax such as VAT/Sales tax, entertainment tax, luxury tax, taxes on lottery, betting and gambling, state cesses and entry tax not in lieu of Octroi to be subsumed. GST will not be charged on exports, it will only be charged on imports and Input Tax Credit will be available on the GST paid on import on goods and services. Some advantages of GST are higher revenue efficiency, easy compliance, and reduction of prices, improved competitiveness and better control on leakage.[4]

Girish Garg, (2014), studied "Basic Concepts and Features of Good and Service Tax in India" and found that 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, tribute, impost, duty, custom, excise, subsidy, aid, supply, or other name. The challenges faced for the implementation of GST bill are with respect to tax threshold, nature of taxes, number of enactments of statutes, rates of taxation and tax management and infrastructure whereas the opportunities are – end to cascading effect, growth of revenue in States and Union, reduces transaction costs and unnecessary wastages, one point single tax, avoids the multiplicity of taxes, reduces average tax burden and reduces corruption. 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.[5]

Marc Andere Pigeon (2015), studied "Federal taxes on Gases and Heating Fuel" and explored that Gases and heating fuel are 'inelastic goods'. In Canada, at the Federal Level, the three taxes are levied on oil namely Royalty tax, Excise tax and Sales tax.. Unlike the Excise tax, GST/HST is calculated as a percentage and therefore increases or decreases with every increase and decrease in price and/or other taxes. The paper suggests that at some point the tax increases may actually lead to reduced tax revenue due to the reduced consumption or production of goods that are highly taxed because higher tax leads to higher tax evasion.[6]

Pinki, Supriya Kamma and Richa Verma (July 2015) studied, "Goods and Service Tax- Panacea For Indirect Tax System in India" and concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for central government, state government and as well as for consumers in long run if its implementation is backed by strong IT infrastructure.[7]

OBJECTIVES

The main objective is to highlight advantages and disadvantages of GST in India.

GOODS AND SERVICE TAX IN INDIA

Goods and Service Tax (GST) is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages.

GST Council will be tasked with optimizing tax collection for goods and services by the State and Centre. The Council will consist of the Union Finance Minister (as Chairman), the Union Minister of State in charge of revenue or Finance, and the Minister in charge of Finance or Taxation or any other, nominated by each State government.
The GST Council will be the body that decides which taxes levied by the Centre, States and local bodies will go into the GST; which goods and services will be subjected to GST; and the basis and the rates at which GST will be applied.

THE IMPLEMENTATION OF GST

For the implementation of GST in the country, the Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders. The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments. GSTN is working on developing a state-of-the-art comprehensive IT infrastructure including the common GST portal providing front end services of registration, returns and payments to all taxpayers, as well as the backend IT modules for certain States that include processing of returns, registrations, audits, assessments, appeals, etc. All States, accounting authorities, RBI and banks, are also preparing their IT infrastructure for the administration of GST. There would no manual filing of returns. All taxes can also be paid online. All miss-matched returns would be auto-generated, and there would be no need for manual interventions. Most returns would be self-assessed.

ADVANTAGES OF GST IN INDIA

The advantages are enlisted hereunder:

- The GST will help to remove economic distortion and bring about common national market. The dream of one country, one act and one tax rate can be fulfilled.
- It will help to make transparent and corruption free tax administration in two ways. First relates to the self policing incentives inherent to value added tax. To claim input tax credit, each dealer has an incentive to request documentation from the dealer behind him in the value-added/tax chain. Provided the chain is not broken through wide ranging exemptions, especially on intermediate goods, this self-policing feature can work very powerfully in the GST. The second relates to the dual monitoring structure of the GST- one by the States and another by the Centre.
- If upcoming GST bill might have well designed and tax rate is more than 'Revenue Neutral Rate' (RNR is the rate which neutralize revenue effect of state and central government due to change in tax system, means ,the rate of GST which will give at least the same level of revenue that is currently

earned by state and central governments from indirect taxes is known as RNR) and tax base becomes more buoyant, then, resources available for the governments will be increase which can be used for poverty alleviation and development activities in the country and states.

- As production cost will decrease which can support would support to increase export from our country.
- This tax will facilitate "Make in India" by making one India. The current structure unmakes India, by fragmenting Indian markets along state lines. These distortions are caused by three features of the current system: the Central Sales Tax on inter- State sales of goods; numerous intra- State taxes; and the extensive nature of countervailing duty exemptions that favours imports over domestic production.
- One fell swoop; the GST would rectify all these distortions: the GST would be eliminated; most of the others would be subsumed into the GST; and because the GST would be applied in imports, the negative protection favouring imports and disfavouring domestic manufacturing would be eliminated.
- As taxable sale limit is brought down i.e. only Rs. 10 lakh, it is expected that tax base will be comprehensive in the country. (It was 1.5 crore for excise duty). It will also diversify tax system and put equal burden on goods and services. These are the main advantages of upcoming GST.

DISADVANTAGES OF GST IN INDIA

Presently, more than 160 countries of the world have implemented GST. Regarding India, eminent economists are very optimistic about its positive effects on the economy. However, each country where GST was implemented experienced inflation for next 3 to 5 years. Some possible disadvantages of GST are as follows:

- Critics say that GST would affect negatively on the real estate market. It would add up to 8 percent to the cost of new homes and reduce demand by about 12 percent.
- Some Economist says that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST and hence GST brings nothing new for which we should cheer.
- As GST brought small traders in the tax net, it will difficult to small traders to compete with strong / big traders. Their survival can become something difficult.
- There is need of various expositions (Monthly, annually, total 37 expositions are required as per present situation) are complicated would difficult to the traders and at the same time I. T. infrastructural support with safety and reliability is required.
- As GST is on purchasing/consumption, its revenue will goes to state in which article sold or service is rendered instead of produced. Means, state from which resources are used to produce goods will not receive tax revenue. For instance, Andhra Pradesh and Telangana are producing cement that is sold in other states of the country, they will get revenue.
- As octroi or Local Body Tax is abolished, its monetary compensation for Urban Local Bodies should be done properly from the concern State Government. But, experience in our country is not satisfactory because even after 73rd and 74th constitutional amendments States are supposed to appoint State Finance Commissions. Nevertheless, all states have not appointed State Finance Commissions regularly. Therefore, Corporations like Brihanmumbai will loss the strong source of revenue.[8]

PROSPECTS OF GOODS AND SERVICE TAX (GST) IN INDIA

The future of goods and service tax in India are outlined below:

- GST is the India's biggest tax reform. There would be a single tax policy across the country that will allow free movement of goods and services to each and every state of India.
- The cost of the product throughout the country would be almost the same and customers will have more money in their pocket to spend. This wills likely boost India's GDP by 1 to 1.5 percent, according to experts.
- Here were some challenges faced by Finance Minister, as in Rajya Sabha majority was against this bill to pass, as from respective state, this bill need consent and it was a difficult task to get them in unity. Also, for IT network, it will be a biggest challenge, as they have to develop GST portal for registration, return filing, tax payments, etc.
- The State Government, it will be loss of revenues and regarding all the concern for GST bill, Finance Minister gave full support to eliminate these issues. And GST will make superb tax structure, which will be better than current taxation system.
- Once GST is fully applicable to taxation reform, it will flatten economic barriers that slow down the growth while benefiting government, across states, which included local taxes, multiple tariffs, limitation of transportation which is a waste of time. If we see, at transportation in India,

- Trucks have to be in a queue to cross state borders and various checkpoints and they have to pay municipal entry tax and it is wastage of time. And in near future, with GST regime, no entry tax, which will allow more manufacturers to send their goods to final users of products/ services.
- Post GST, it will be easier for small entrepreneurs' to set up business in India and they need not to think for dozen of taxes to pay for their resources, which in return will be benefited to economy.
- Most important element of GST model is that: there should be single low rate; there will be seamless flow of tax through the stages of distribution channel, no paperwork as all the things will be done computerized which will benefit to administrative system,
- As mentioned above, GST will work effectively and efficiently, which will enhance production and it will increase country's GDP. It will be a game changer for nation and all the stakeholders will unite and develop something which beneficial to Indian Industry.

CONCLUSION

Goods and Service Tax, with end-to-end IT-enabled tax mechanism, is likely to bring buoyancy to government revenue. It is expected that the malicious activity of tax theft will go away under Goods and Service Tax regime in order to benefit both governments as well as the consumer. In reality, that extra revenue that the government is expecting to generate won't come from the consumers' pocket but from the reduction of tax theft. The GST is good advantages in India and draw backs are also presented. There are various challenges in the way of Goods & Service Tax, but its advantages are more than its disadvantages. It will also give India a world class and a smart tax system. It requires rational use and effective implementation of GST in a nation like India. The main aim behind GST is to replace VAT. GST is a comprehensive indirect tax that subsumes all types of indirect taxes of central and state governments in it. It may be said that GST will provide relief to consumers, manufacturers and government and whole nation as well.

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