



DARLING AND DAGGER OF GST IN INDIAN REGIME

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ABSTRACT

The Goods and Services Tax (GST) is a value added tax to be implemented in India, the decision on which is pending. GST is the only indirect tax that directly affects all sectors and sections of our economy. Ignorance of law is no excuse but is liable to penal provisions, hence why not start learning GST and avoid the cost of ignorance. Therefore, we all need to learn it whether willingly or as compulsion. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. The changed indirect tax system GST-Goods and service tax is planned to execute in India. Several countries implemented this tax system followed by France, the first country 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 Implementation is not yet declared by government and the drafting of GST law is still under process and a clear picture will be available only after announcement of Implementation. In 2011, the previous United Progressive Alliance (UPA) Government also introduced a Constitution Amendment Bill to facilitate the introduction of the GST in the Lok Sabha but it was rejected by many States. In this article we discussed the pros and cons of the GST in the Indian Regime.

Keywords: GST, VAT, UPA, Government, Implementation.

INTRODUCTION

The proposed Goods and Services Tax (GST) is said to replace all indirect taxes levied on goods and services by the

Government, both Central and States, once it is implemented. The GST will consolidate all State economies. It will be one of the biggest taxation reforms to take place in India once the Bill gets the official green signal. The basic idea is to create a single, cooperative and undivided Indian market to make the economy stronger and powerful. The GST will make a significant breakthrough paving way for an all-inclusive indirect tax reform in the country.¹

In the year 2000, for the first time the idea of initiating the GST was made by the then BJP Government under the leadership of Atal Behari Vajpayee. An empowered committee was also formed for that, headed by Asim Dasgupta (the then Finance Minister of the West Bengal Government). The committee was formed to design the model of the GST and at the same time inspect the preparation of the IT department for its

rollout. In 2011, the previous United Progressive Alliance (UPA) Government also introduced a Constitution Amendment Bill to facilitate the introduction of the GST in the Lok Sabha but it was rejected by many States.¹

MEANING-GST

The GST is basically an indirect tax that brings most of the taxes imposed on most goods and services, on manufacture, sale and consumption of goods and services, under a single domain at the national level. In the present system, taxes are levied separately on goods and services. The GST is a consolidated tax based on a uniform rate of tax fixed for both goods and services and it is payable at the final point of consumption. At each stage of sale or purchase in the supply chain, this tax is collected on value-added goods and services, through a tax credit mechanism.

DEFINITION OF GST

“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 retailers level where only the final consumer should bear the tax.”²

OBJECTIVES

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.²

HISTORICAL BACKGROUND OF GST

GST was first recommended by Kelkar Task Force on implementation of Fiscal Reforms and Budget Management Act 2004 but the First Discussion Paper on Goods and Services Tax in India was presented by the Empowered Committee of State Finance Ministers dtd.10th Nov.10th, 2009.

In 2011, the Constitution (115th Amendment) Bill, 2011 was introduced in Parliament to enable the levy of GST. However, the Bill lapsed with the dissolution of the 15th Lok Sabha.

Subsequently, in December 2014, the Constitution (122nd Amendment) Bill, 2014 was introduced in Lok Sabha. The Bill was passed by Lok Sabha in May 2015 and referred to a Select Committee of Rajya Sabha for examination.

GST Bill Passed in Rajya Sabha on 3rd August 2016 (03-08-2016)

When GST is Applicable – Modi Government Want to applicable GST Bill From 1st April 2017, Due to Some Legal Problems GST Bill is not applicable before 1st April 2017.

SCOPE OF GST

- All goods and services are covered under GST Regime except Alcoholic liquor for Human Consumption,
- Tobacco Products subject to levy of GST and Centre may also levy excise duty
- GST Council yet to decide the incidence and levy of GST on following

- a) Crude Petroleum
- b) High Speed Diesel (HSD)
- c) Motor Spirit (Petrol)
- d) Natural Gas
- e) Aviation Turbine Fuel

DARLING OF GST

1. More competitive business environment: It will shift the burden of taxes from the manufactures in India where the tax system is unfairly skewed towards the consumers. Manufacturers will pay lesser taxes and there will be an environment of greater competitiveness and more freedom in business.

2. Uniform tax rates across states: Would you not decrease your rates to attract more people towards your products if you could? Similarly to be competitive states sometimes cut the VAT rates. This is to attract more investors in line with the human nature, causing a loss of revenue to both the states and the center. Uniform rates will check this problematic fiasco.

3. Better inter-state trade: Currently there are no tax credits provided for inter-state trade and hence uniform rates across all the states would boost the trade in the country between

different states. This can even be seen as unification of the country by economic means.

4. No confusion: All confusion regarding what is a manufacturing or service activity will be removed. All economic activities will be "economic activities" only and will be taxed.

5. No cascading effect: There will be no taxes on taxes. Only once will there be a tax- a single indirect tax. There will be no gung-ho.

6. Ease on many fronts: This will be easier to understand, easier to administer and easier to dispense with. Aam Aadmi Party had made it a manifesto point of simplification of VAT for the traders, such is the magnitude of the problem. Hence ease of administration and understanding will be of great help.

7. Widening tax base: More people will pay taxes. The tax rates are reduced but the emerging number of participants will make up for the loss, the government has suggested.³

DAGGER OF GST

Everything comes with a dagger. Here are some of GST:

1. Increased monopoly of Center: There will be even more centralisation in fiscal matters. The Centre will fix the percentage of revenue to be shared with the states. Thus the autonomy of states will be compromised.
2. States lose a share of revenue: Some of the states may even suffer a loss on the account of tax sharing and the center itself may decide on the one-time compensation. The government may increase the state taxes by 1-2% to compensate them. However this is the stumbling block in the way of this bill as settlement will be a pain in the ass.
3. The Jharkhand - esque conundrum: The states like Jharkhand which are more goods-driven and lesser services-driven will thus be sharing their sales revenue with the Center but don't have

enough services to compensate like Karnataka. This is going to hurt some states.

4. Burden on taxpayers: The money that was not taken from the producer under the system of tax credit in GST will be recovered from the consumers, which definitely is a negative for the "consumer community".⁴

STATUS OF IMPLEMENTATION OF GST

To be fully viable by law in all the States, the GST Bill needs to be passed by a two-thirds majority in both Houses of Parliament and by the legislatures of half of the 29 States. In December 2014, Finance Minister Arun Jaitley introduced the constitutional amendment Bill of the GST in the Lok Sabha. He announced that the GST would be a major reform in India's taxation system since 1947, which would reduce transaction costs for business and boost the economy.

Earlier, the Bill was rejected by a few States saying that it does not include the issues of compensation, entry tax and the tax on petroleum products. Jaitley while introducing the

Bill said that all efforts have been taken to make sure that the States do not suffer any loss of revenue with the implementation of the GST. The States will receive Rs 11,000 crore this fiscal year so that it would compensate the losses suffered by them for decline in Central sales tax (CST) and subsequently financial assistance would be provided for a five-year period.

All said and done, the GST Bill which was conceived way back in the year 2000 has not seen the light of the day as yet. If everything goes well, most likely the Bill will be legislated by April 2016. According to a study by the National Council of Applied Economic Research (NCAER), full implementation of the GST could expand India's growth of gross domestic product by 0.9-1.7 percentage points.⁵ By removing the system of multiple Central and State taxes, the GST can help in reducing taxation and filing costs and expand business profitability, thereby attracting investments and promoting GDP growth. Simplification of tax norms can help in improving tax compliance and increasing tax revenues.

BOTTLENECKS IN THE IMPLEMENTATION OF GST

- Though the Government wants the GST Bill to be implemented by April 2016, there are certain bottlenecks which need to be taken care of before that:
- What preparations are needed at the level of Central and State Governments for implementing the GST?
- Whether the Government machinery is efficient enough for such an enormous change?
- Whether the tax-payers are ready for such a change?
- What will be the impact on the Government's revenue?
- How will the manufacturers, traders and ultimate consumers be affected?
- Will GST help the small entrepreneurs and small traders?

SUGGESTIONS FOR EFFECTIVE IMPLEMENTATION

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

- Standardization of systems and procedures.
- Uniform dispute settlement machinery.
- Adequate training for both tax payers and tax enforcers.
- Re-organization 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.

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