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GST (Goods and Services Tax): A Transformation of Indirect Taxation System of India

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Abstract: *GST Stand for Goods and Services Tax. It is a destination or consumption base tax. It is to be implemented from the 1st july 2017.GST is a transformation of entire indirect taxation system. It is defined as the giant indirect tax structure designed to support and enhance the economic growth of the country. However, the idea of GST in India was mooted by Vajpayee government in 2000 and the constitutional amendment for the same was passed by the Loksabha on 6th May 2015 and ratified by the Rajyasabha. . Experts say that GST will help the economy to grow in more efficient manner by improving the tax collection as it will disrupt all the tax barriers between states and integrate country via single tax rate.GST based on the Dual aspects i.e. CGST and SGST.*

Keywords: *Goods and Services Tax (GST),Dual aspects, Indirect Tax.*

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I. Introduction

The GST is likely to change the whole scenario of current indirect tax system. It is considered as biggest tax reform since 1947. Currently, in India complicated indirect tax system is followed with imbrications of taxes imposed by union and states separately. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level [1]. GST will be an indirect tax at all the stages of production to bring about uniformity in the system. On bringing GST into practice, there would be **amalgamation** of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as **international market**. At the consumer level, GST would reduce the overall tax burden, which is currently estimated at 25-30%.

Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods [2]. In order to avoid the payment of multiple taxes such as excise duty and service tax at Central level and VAT at the State level, GST would unify these taxes and create a uniform market throughout the country. Integration of various taxes into a GST system will bring about an effective cross-utilization of **credits**. The current system taxes production, whereas the GST will aim to tax consumption. Due to GST the compliance and administrative cost will be much lower as compare to current taxation system. The specified rates of GST will be 5%,12%,18% & 28%.

II. Objectives Of The Study

- The origin of GST in India.
- To understand the concept of Goods and Services tax.
- Benefits of GST in Indian economy.
- To learn about the drawbacks of existing indirect taxation system of India.

Research Methodology:

This paper focus on extensive study of secondary data collected from various books, National journals, government reports, publication from various websites which focused on various aspects of goods and services tax.

The arrival or origin of Goods and Services tax in India:

Here is how the GST has evolved over the past 16 years.

2000: Atal Bihari Vajpayee, then prime minister of India, flags off discussions on the GST. He sets up a committee headed by the then finance minister of West Bengal, Asim Dasgupta, to design the GST model and put in place the back-end technology and logistics for its implementation. Dasgupta remained the chairman of the committee until 2011.

2004: A task force chaired by Vijay L. Kelkar, then advisor to the finance ministry, says the existing tax system suffers from many problems. It suggests a comprehensive GST.

February 2005: In his budget speech for financial year 2005-06, the then finance minister Palaniappan Chidambaram says: “In the medium-to-long term, it is my goal that the entire production-distribution chain should be covered by a national VAT (value added tax), or even better, a goods and services tax, encompassing both the centre and the states.”

February 2006: Chidambaram sets April 1, 2010, as the date for introducing the GST. “(The) world over, goods and services attract the same rate of tax. That is the foundation of a GST. People must get used to the idea of a GST,” he says.

November 2006: Parthasarthy Shome, adviser to finance minister Chidambaram, says states will have to take various reform measures to pave the way for the GST. “At the moment, the issue of discussion between the state and the centre is compensation for central sales tax,” Shome says.

February 2007: The union budget for 2007-08 retains the April 1, 2010 deadline for implementation of the GST.

February 2008: While reading out the union budget for 2008-09, the finance minister Chidambaram says, “I am also happy to report that there is considerable progress in preparing a roadmap for introducing the Goods and Services Tax with effect from April 1, 2010.”

July 2009: India’s new finance minister, Pranab Mukherjee, announces the basic structure for the GST. The government retains the April 1, 2010, deadline.

November 2009: The committee under Asim Dasgupta releases its first discussion paper on the GST in the public domain, looking to generate a debate and obtain inputs from stakeholders.

February 2010: The government launches a mission-mode project for the computerisation of commercial taxes in states which is expected to lay the foundation for the GST. The budgetary outlay for the project is Rs1,133 crore, of which the centre’s share is Rs800 crore. The GST implementation is pushed back by another year. “I am confident that the government will be in a position to implement DTC (direct tax code) from April 1, 2011,” finance minister Mukherjee says.

March 2011: The Congress party-led government introduces a constitution amendment bill in the Lok Sabha to implement GST. India’s opposition parties protest. The bill is sent to a parliamentary standing committee headed by former finance minister Yashwant Sinha. A bill is usually sent to the standing committee—that comprises members from Lok Sabha and Rajya Sabha—for a detailed examination.

June 2012: The standing committee begins discussion. India’s opposition parties, including the BJP and the Left, raise concerns over clause 279B which allows the centre to have extra discretionary powers over the GST dispute authority.

November 2012: Finance minister Chidambaram holds meetings with state finance ministers. The two sides set December 31, 2012 as the deadline to solve all issues.

February 2013: In his budget speech, Chidambaram announces that the government has made provisions of Rs9,000 crore for compensation to states. “I hope we can take this consensus forward in the next few months and bring to this house a draft bill on the constitutional amendment and a draft bill on the GST. I appeal to the state finance ministers to realise the serious intent of the government to introduce GST and come forward to work with the government and bring about a transformational change in the tax structure of the country,” Chidambaram says.

August 2013: The standing committee submits its report to parliament. The panel approves the legislation with some amendments on the provision of tax structure and resolution mechanism. “What should be included in the laws and rules should not form part of the constitution of India. The present bill relating to GST, in the committee’s view, has not been well drafted from this perspective and, therefore, require amendments as suggested,” the report said.

October 2013: The Narendra Modi-ruled state of Gujarat opposes the bill. “If the union government, through an ordinance, enacts the GST regime, Gujarat will have to bear Rs14,000 crore loss per annum due to the destination-based taxation principle,” Saurabh Patel, a minister in Modi’s government, says.

May 2014: The constitution amendment bill lapses with the dissolution of the 15th Lok Sabha. The same month, the BJP, led by Narendra Modi, is voted into power.

December 2014: Seven months later, India’s new finance minister, Arun Jaitley, introduces the bill in the parliament. The Congress party, now in opposition, demands that the bill be sent to a standing committee.

February 2015: In his budget speech, Jaitley announces that the government is keen on implementing the GST by April 1, 2016 and hopes it will be cleared by parliament.

May 2015: The Lok Sabha passes the constitution amendment bill to GST. “I straight away concede that 27% (revenue-neutral rate) would be very high. We have decided to keep petroleum out and every state finance minister is not interested in imposing higher taxes on its own people, and neither the central government. Therefore, this figure is going to (get) much more diluted compared to the figure (27%) which has been mentioned,” Jaitley says.

August 2015: The government is unable to push the bill in the Rajya Sabha where it does not have a clear majority. "Parliament disruption is frustrating for the whole country. This was a disruption without a cause," Jaitley tells the media on Aug. 13.
March 2016: Jaitley says he agrees with the Congress's demand that the GST rate must not be above 18%. But he disagrees that the rate should be fixed since "unforeseen emergencies" would require the government to raise the rate of tax in the future. If the government fixes a particular rate in the bill, it will have to take parliament's permission each time it wants to raise the tax.
August 2016: The Congress seems to finally agree with the Modi government after it agrees to the four broad amendments to the bill. "All the issues we have raised are there in the GST constitutional amendment," Anand Sharma, a former minister for commerce and a senior Congress leader, tells NDTV. "On the capping (on GST rate), we still want ring-fencing and (the) states to come to an agreement with the centre."
July 2017: Finally from the 1 July 2017 the GST will be implement in all over the India.

Dual-Gst: Who Gets What

TRANSACTION	NEW SYSTEM	OLD SYSTEM	COMMENTS
Sales within the state(Intra sales)	CGST & SGST	VAT/EXCISE & SERVICE TAX	Eliminate the old taxes and attract the 2 new taxes called CGST & SGST.
Sales outside the state(Inter State)	IGST	CST/Excise & Services Tax	In new system there is only 1 tax called IGST. Which is collected by the CG.

Benefits of GST in Indian Economy:
Experts have enlisted the benefits of GST as under:

- It would help to reduce the logistics and inventory cost.
- For many capital goods, input tax credit is not available. Full input tax credit under GST will mean a 12-14% drop in the cost of capital goods. Expected: A 6% rise in capital goods investment, 2% overall.[3]
- It would free the manufacturing sector from cascading effect of taxes, thus by improve the cost-competitiveness of goods and services.
- GST creates a common market across in India and this would reduce the compliance cost also.
- GST will also bringing down the inflation and the fiscal deficit due to the reduction of prices.
- Control of black money circulation as the system normally followed by traders and shopkeepers will be put to a mandatory check.
- It would create business-friendly environment, thus by increase tax-GDP ratio.
- GST is a great avenue for the development of under-developed states.This would provide more opportunities for individual states.
- The GST bill would make the process of registering, documentation and paying taxes easier as the common man need not deal with the hassle of multiple taxes.
- It would help to boost the revenue as well as investment also.
- It provides the features of rating compliance also.
- INPUT TAX CREDIT for CGST & SGST will be taken for taxes allowed against central and state respectively**.**
- Under the new system, the states and the Centre will collect identical rates of taxes on goods and services. For instance, if 18% is the GST rate on a good across the country, the states and the Centre will get 9% each called the CGST and SGST rates

Drawbacks of existing Indirect taxation system:

1. The CENVAT (Excise Duty) is levied on the products manufacturer or produced in India. But there are various definitions related to manufacture and various ruling given by the courts. There are also various disputes regarding valuation of products. The issue related to the applicability of CENVAT (Excise Duty) only at manufacturing level, which is an impediment to an efficient and neutral flow o tax credit. Various countries have replaced VAT system by implementing GST.
2. The Constitution of India has bifurcated the power of taxation between Central Government and the State Government. The State Government has power to levied taxes on all matters or items falling under State List. Now in case of Service Tax the Central Government has power to levy tax on Services but in case of Work Contracts the State Government also has power to levy tax. This type of system creates difficulties and disputes in revenue generation and distribution.
3. The distinctions between goods and services are getting closer due to improvement in technology and innovation. The copyrights, patents, software etc., are not considered as goods and falling under domain of State Government. So the goods are getting colours of services and their classification becomes more complicated by the tax authorities. Let us consider an example in case of Leasing of Equipments, without

transfer of machinery and control to the lessee, would this be taxable as Service or Sale. There are various cases, where disputes raised in present taxation scenario.

4. The Service Sector is growing rapidly and Central has exclusive power to levy tax on services. The State Government is losing its revenue by not levying tax of services under the State.
5. There is some shortcoming in CENVAT system of Government of India is because of non-inclusion of several central taxes in the overall framework of CENVAT. Many taxes such as Additional Customs Duty, Surcharge etc., are not included in CENVAT System. There are various services such as Oil, Gas Production, Mining, Agriculture, Wholesale and Retail Trade, Real Estate Construction has been kept out of range of CENVAT Credit. These taxes are included in the output services and products are producing cascading effects. In VAT system also various taxes such as Entry tax, Octroi, Luxury Tax, Entertainment tax are kept outside of VAT Scheme.
6. In case of CST on Inter State Sales, no set off is allowed, which also increase cascading effect.
7. The Central and State Government are using new and modern technologies to administer the taxes, but more improvement required. The present system, the dispute resolution system is complex and more time and money consuming. These difficulties should be addressed.
8. There are various tax forms and returns are required to be filed related to various duties under various taxation laws and rules. These returns are complex and lengthy, and these should be simplified.
9. There is lack of cross verification of returns filed under various State as well as Central Taxation Rules and there are different in detailed filed by the assessed by paying Central and State taxes simultaneously.
10. At present there are more than fifteen taxes under Indirect Tax System. All these taxes are of different rates and required to be filed through different forms and returns.
11. The State Government are levying Entry Tax and Octroi and compliance to it are time consuming. The transporters are required to wait more than four hours on border of a state, while entering in other state
12. Complexity in determining the nature of transaction
13. Lack of uniformity in provisons and rates.

III. Conclusion

A good tax policy play an important role in an economy. A good tax system should keep in view issues of economic distribution and, at the same time also endeavour to generate tax revenues to support government expenditure on public services and infrastructure development.GST will change the entire indirect taxation system. It will help to increase the potential of the Indian economy.Cascading tax revenues have differential impacts on firms in the economy with relatively high burden on those not getting full offsets. While it serves to be beneficial set up for the industry and the consumer, it would lead to increase in revenue to government.GST will give india a world class tax system by grabbing different treatment to manufacturing and services sectors. Consumption and productions of goods and services is undoubtedly increasing and because of multiplicity of taxes in current tax regime administration complexities and compliance cost is also accelerating. Thus, a simplify, user -friendly and transparent tax system is required which can be fulfilled by implementation of GST. Its implementation stands for a coherent tax system which will colligate most of current indirect taxes and in long term it will lead to higher output, more employment opportunities .It simplifies the taxation system of India.

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