GOODS AND SERVICE TAX (GST)

Seminar Compendium

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Rev. Dr. Daniel Fernandes, SJ.

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PREFACE

I have great pleasure in publishing a compendium of proceedings of the national seminar organized by the post graduate department of Commerce on ‘Goods and Services Tax Bill’. The proposed Goods and Service Tax Bill or GST Bill, officially referred to as the Constitution (One Hundred and Twenty-second Amendment) Bill, 2014 is expected to reform the regulatory framework that governs the indirect tax regime within India. By the implementation of GST, the central government is hoping to create a common Indian market and thereby to reduce the cascading effect of tax on the cost of goods and services. GST bill is expected to impact the present tax structure, tax incidence, tax computation, credit utilization and reporting, which may lead to a complete overhaul of the current indirect tax system. Moreover, GST is expected to bring forth far-reaching impact on almost all aspects of business operations within the country, including pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems.

The current multiple tax regime is widely criticized as unfairly skewed against producers. Most administrators and producers disparage the existing tax law because of its complexities, administration and compliances costs. They believe that its replacement by GST would not only be desirable but also imperative in the emerging economic environment and will make the tax procedures more fair, transparent and efficient.

The GST Bill will subsume various Central indirect taxes, including the Central Excise Duty, Countervailing Duty, Service Tax, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty etc. It will also subsume State value added tax (VAT), State level taxes like, VAT or sales tax, Central Sales tax, Entertainment tax, Entry tax, Purchase tax, Luxury tax and Octroi etc.

The Bill also proposes to establish a GST Council which is supposed to optimize tax collection for goods and services by the State and Centre. The GST Council will be the body that decides the taxes that are to be levied by the Centre, States and local bodies; which goods and services will be subjected to GST; and the basis and the rates at which GST will be applied. The Council will be headed by 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.

In spite of great optimism from the ruling party about the much-hyped GST bill as a key driver which is expected to propel India’s economic growth to double digits, the Finance Ministry has already missed three of its deadlines to come out with an acceptable framework due to the resistance from the opposition members. In fact, it is reported that the proposed GST bill has not completed even the beta stage. Issues associated with the division of taxation powers between the central government and states have yet to be resolved. Some questions that are raised in this context are: how will the goods and services tax (GST) work in India?- how is it different from the value added tax (VAT)?, how is the proposed GST framework different from the current scenario?- what are the pros and cons of implementing it?- why is there such fierce opposition to it before being implemented?- how is it going to affect various sections of the society?- At this juncture it is appropriate to open up an opportunity for discussions and deliberations about the probable impact of the proposed GST bill among the academicians.

In this collection of articles, an attempt is made to present the role of GST as a game changer in the process of economic progress of the nation. All the paper presenters, with their vision and outlook, have made it possible in compiling these articles. I record my sincere thanks to all contributors.

Dr. Daniel Fernandes SJ

Principal

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A BENEFIT STUDY OF PETROLEUM INCLUSION IN GST BILL

Sonia Lobo, Akarsha Srivastava

Abstract

The paper aims at studying the inclusion of Petroleum under GST Bill in India. The paper begins with introduction and tries to highlight the objectives of the study. After a brief introduction on GST there will be a study on analysis of GST rates on petroleum product of the two countries, Australia and Canada. The third section broaches as to why GST should be levied on petroleum in India. Section four concludes the paper with a short summary. The secondary data collected is from year 2000 and the outcome of the paper is to include Petroleum in GST bill. The paper focuses on scholarly articles and current research so as to keep theory as close as possible to reality.

***Key words** –GST, input tax credit, CGST, SGST.*

Introduction

Goods and Service Tax (GST) is a comprehensive tax levied on manufacturing, sales and consumption of goods and services at a national level. 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 retailer's level where only the final consumer should bear the tax. In 2000, the discussion on GST Bill was started. During the Central Budget of 2007-08 it was announced to be introduced on April 1, 2010, but the Empowered Committee missed its deadline. In 2014, Constitution Amendment Bill introduced in the Lok Sabha and taken up for discussion. On 6 May, 2015, Lok Sabha passed the bill and it is introduced in Rajya Sabha with minor amendments and it is still pending in Rajya Sabha for the winter session of the Parliament to be passed.

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GST is a simple, transparent and efficient system of indirect tax, introduced to over 140 countries across the globe. It was first introduced in France in 1954. Many countries have a unified GST system, whereas in our country a dual GST is proposed wherein a central goods and services tax (CGST) and a state goods and services tax (SGST) will be levied in the taxable value of the transaction. The CGST will subsume central excise duty (Cenvat), services tax, additional duties of customs at the Central Level and value-added tax, central sales tax, entertainment tax, luxury tax, octroi, lottery taxes, electricity duty, state surcharges related to supply of goods and services and purchase tax at the State Level.

GST has a vast impact on all the sectors such as Food and Industry, Housing and Construction Industry, FMCG, Rail Sector, Financial Services, Information Technology, MSME. We are only taking in consideration the impact of including petroleum under GST Bill.

Literature Review

Pigeon (2005) 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.

Kumar (May 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.

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.

An article **“Petrol, Excise and GST”** published by **Parliament of Australia** states that in Australia taxes account for approximately 34-39 percent of the retail price of petrol and consist of two components, excise and the Goods and Services Tax (GST). When propositioned about the possibility of removing GST from fuel, Mr. Michael Potter from the Australian Chamber of Commerce and Industry asserted that whilst this would possibly benefit consumers, it would provide no advantage to business. But the important problem with making fuel GST-free is that that would have absolutely no effect on the price of fuel purchased by business. Businesses can claim an input tax credit for all the GST, so effectively they get a 10 per cent reduction in the cost of fuel. If you made fuel GST-free, of course it would reduce the price for the final consumer but it would keep it exactly the same for business. Two distinct perspectives arise: one in which the Government should seek to lower petrol taxes to reduce the impact of escalating petrol prices; and another which argues that the Government should increase the level of excise applied to petrol to reduce Australia’s dependence on petroleum.

In one of the articles published by **The Hindu** named **“States want petroleum , alcohol out of GST”** it stated that petroleum and alcohol will not be included under the proposed GST according to the statements given by Abdul Rahim, chairman of the empowered committee of state finance ministers. He said that “These are the main sources of income for the states and if they are not included in the GST the states will stand to lose a lot”. If petroleum is included then the center is ready to provide Rupees Nine thousand crore to the states as a compensation.

Statement of Problem

Petroleum products form the major crunch of the revenue for the country. Also the Government of India is mainly focused on the GDP growth of our economy. Therefore, inclusion of petroleum in GST Bill has a high significance. Canada and Australia are the two economies who have had petroleum under their indirect taxes for more than a decade. With reference to the same, the benefits of including petroleum in GST in the two countries namely Canada and Australia are studied. Hence this paper has made an attempt to study the benefits of the same in Indian context.

Objectives of the Study

- To understand the effect of including petroleum in the GST fold by drawing analysis of two countries, Australia and Canada charging GST on petroleum.
- To highlight the importance of including petroleum in GST of India.
- To bring out the benefits obtained by various industry sectors due to the inclusion of petroleum in GST.

Research Methodology

Type of Study

The research paper is an exploratory study keeping in view the needs of the objective, because GST is still in the genesis form in India. It is yet to be passed by the Government of India Various Government bodies are still exploring the feasibility, viability and the administrative impact of GST on the Government Administrative structure. To support the study, various secondary data from other countries and bodies is taken for supporting the exploratory data.

As GST is not implemented in India, there is no accurate data available on the same. Hence, the study relies on the secondary data mainly from the sources like Parliament of Australia, articles published on newspapers, expert's opinion and views of Government Ministers.

Limitations

- Currently, GST in India does not include Petroleum products whereas countries such as Australia and Canada include such products under GST. Therefore, due to unavailability of statistical information of GST in India, the views expressed are subject to change.
- Due to the time constraints, the research is limited to descriptive study.

Discussions

Analyzing GST Rates levied on Petroleum Products in Australia and Canada

Australia

The New Tax System came into effect on 1 July 2000 in Australia. The GST replaced the inefficient wholesales taxes and state transaction taxes and personal income taxes were substantially reduced. Taxes account for approximately34-39 percent of the retail price of petrol and consist of two components, excise and the Goods and Services tax (GST). Excise is capped at 38.143 cents per litre (cpl) and is levied on the domestic production of petrol and the corresponding customs duty which is levied on imported petrol. GST is charged at the standard rate of 10 percent of the total purchase price.

Some of the benefits due to the inclusion of petroleum in GST Australia received are:-

- More efficient sources of revenue were generated through GST that lead to increased growth and higher living standards.
- Government revenue coming from personal taxation decreased and inflation was pushed down.
- Since, petroleum is a scarce resource; the increase rate of GST on petroleum has helped reduce the consumption of petroleum.

Canada

There are three taxes in Canada on Petroleum oil. First is Royalty tax levied on the companies that dig or pump oil out of the ground, it is structured such that it increases from 1-5% of gross revenue over the first six years of production or until the initial investment have been recovered, after that the royalty is 30 percent of the net cash flows and 5 percent of gross revenue. Second is Excise tax which is calculated on volumes and quantities of energy, third is Sales tax that is calculated on values. Sales tax includes Goods and Service tax and Harmonized Sales tax. Harmonized Sales tax is a combination of the Goods and Service tax and Provincial Sales tax, they are levied after the manufacturers and retailers have priced the cost and profit margins and after the federal and provincial government have added excise taxes. The rate of GST and HST levied is 7 and 15 percent respectively.

In Canada some of the benefits due to the inclusion of petroleum in GST received are:-

- The tax revenues were utilized for providing funds for road repair and construction.
- The increased rate on GST reduced the consumption rate of petroleum and made it last long.

Comments

The implementation of petroleum in GST has highly benefited the two countries in terms of increased revenue, high standards of living, saving scarce resource and using the revenue obtained to provide funds for other development activities. India being a highly populated nation the consumption of petroleum product is very high. Thus, the implementation of GST rates on petroleum can help reduce its consumption level and make it last long. As the GDP of the two countries increased by including petroleum under the GST similarly, this inclusion can also help our country in increasing the GDP growth rate which is one of the stated objectives of GST.

Importance of including Petroleum in GST Bill in India

The Indian oil and gas sector is the largest revenue earner for the Central and State Governments. In 2010-2011, the revenue generated was 27.8 percent of the total indirect tax collected by both the Governments. Of this, the five petroleum products- Crude Oil, Diesel, Petrol, Aviation Turbine Fuel and Natural Gas (to be excluded from GST) alone makes upto 96 percent of revenue. If these products are not included in GST, 27 percent (a little less than one-third) of all indirect taxes will remain excluded from GST. In this case GST will cover only two-third of all taxable revenues. Surely this would not be enough to meet some of the stated objectives of GST, which is to boost the GDP growth of the country and to make Indian Goods & Services internationally competitive. Economists and industrialists suggest that only the implementation of GST will increase the GDP rate of India by 1-1.5 percent. Thus with the focus on GDP growth, inclusion of Petroleum Products under the Bill would be beneficial for the nation's economy.

Secondly, in case of **"Oil Linked Products"** if the central government includes all the petroleum products under the ambit of GST which in turn would eliminate double taxation it would likely create a cost advantage of about 15-20 percent for industries purchasing bulk fuel, petroleum products like lubricants.

Another undesirable impact of exclusion of petroleum products is the loss of credit on goods and services covered by GST received and used to produce non- GST products. For instance, in case of oil exploration and production industries who already have the burden of excise, VAT and service tax on capital goods will suffer more if the credit is not available on crude oil/natural gas. It is, therefore, imperative that the Parliamentary Standing Committee recommends amendments to the Bill for a holistic GST covering all goods and services in the interest of all stakeholders, without excluding petroleum products.

Comments

By the above study of the objective it is evident that the inclusion of petroleum in GST is highly advantageous for increasing revenue, improving growth of the economy, eliminating double taxation and creating a cost advantage for industries linked to the oil production and consumption.

Benefits on various industry sectors on inclusion of petroleum in GST

- Industries purchasing bulk fuel petroleum products like Lubricants would be eliminated from double taxation. It would create a tax advantage of 15-20 percent.
- Oil exploration and production industries will be provided with credit on crude oil or natural gas.

- Transport service industries will see a major impact on its Cash flow. The liability to pay tax will shift from recipient of service from provider of service.
- The inclusion of petroleum tax would provide input tax credit to transportation sector.

Comments

It is prudent from the above that sectors which are directly or indirectly linked with oil products will see a major change in its cash flows. The process of double taxation will be eliminated, input tax credit will be provided and it will create a cost advantage for the above mentioned sectors leading to better development of nation.

Findings of the Study

- Since the petroleum and other related products are excluded from GST, it ceases from functioning as a 'national tax'
- Petroleum products including Crude Oil, Diesel, Aviation Turbine Fuel, Natural Gas will continue to be taxed under excise duty and VAT during the initial few years of GST implementation. This will prevail until the states reach comfortable revenue levels.
- In India, 50 percent of the revenue is earned by States from indirect taxes charged on Petroleum and other related products. Hence, including Petroleum products under GST Bill has increased the fear of loss of revenue for the states. This is one of the reason due to which GST is not levied on Petroleum Products.

Conclusions

GST will integrate the Indian market and stimulate economic activities, potentially leading to an increase in GDP growth.

As petroleum is one of the product that involves various goods and services from stages such as exploration, production, refining etc, the input tax credit from which could be utilized under the GST. This would lead to substantial price advantage for petroleum products which is critical since it impacts everyday life. Thus inclusion of petroleum products under the GST Bill will be a welcoming change for the developing economy of our Country.

Like a coin has two sides similarly petrol inclusion under the GST Bill has its own prospects. The system of including petroleum under GST though has proven positive in the economies of Australia and Canada, the same impact in India is yet to be explored. This is due to the large size of population, administrative complexities in the working of the Indian Government, policies and legal procedures and most importantly the attitude of politicians.

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♦ ♦ ♦ ♦

THE IMPACT OF GOODS AND SERVICE TAX (GST) ON END CONSUMERS OF MANUFACTURING

Alamelu. L. & Sharon David

Abstract

Around 140 countries in the world have adopted GST model of Taxation. The idea for introducing GST in the country is found in the budget speech of the union finance minister in the year 2005-06.Over the subsequent budget speeches, the path way for introducing GST was spelt out in more detail. The proposal involved restructuring of indirect taxes levied by both the Centre and the State. This responsibility was entrusted with the empowered committee of the State Finance Ministers. The principle idea behind the concept of GST is to eliminate various forms of indirect taxes that are levied and collected at different points of consumptions and to overcome the shortcomings of the existing indirect tax system. This will benefit all stake holders like central and state government and the ultimate consumer by mitigating the cascading impact of taxes on production and distribution cost of goods and services. This paper presents the background, salient features and impact of GST on the end consumers of manufacturing goods.

***Keywords*:** *GST, End consumers, manufacturing goods.*

Introduction

GST will be one of the biggest tax reforms that will replace all indirect taxes (like Central Excise Duty, Additional Exercise duty, Service Tax, Customs duty, State VAT etc.) levied on goods and services by the government both center and state once it is implemented. It is an indirect consolidated tax, based on a uniform tax rate fixed for both goods and services (namely automobile, food products, telecom, insurance etc.) payable at the final point of consumption through a tax credit mechanism. GST subsumes a series of all indirect taxes under a single domain .The recommended GST bill gives concurrent powers to both states and the center to make laws on the taxation of goods as well as services.

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Consumer of manufacturing goods mean any form of an article or a component that is manufactured or distributed for sale to a consumer for his/her ultimate consumption Implementation of GST bill will eliminate the cascading impact of taxes on production or distribution which will reduce the prices of goods and services and this will benefit the end users.

Implementation of GST bill will mark an important milestone in the field of Indirect Tax Reforms in India. It's likely to benefit all stake holders like The Governments, The Trade and Industry and the consumers at large. It will harmonize the taxing of consumption of goods and services uniformly throughout the country and will pave way for creation of common market across India.

Review of Literature

Dr. R. Vasanthagopal, (2011) Studied and found a balance in conflicting interests of various stakeholders with the implication of the constitutional amendment.

Girish Garg, (2014) Studied and found that GST is the most analytical step towards the comprehensive indirect tax reform in our country.

'The constitution (122nd Amendment) Bill, 2014 (GST) shared the idea behind GST is to subsume all existing indirect taxes under one value added tax which will be levied on goods and services. This shall intend to harmonize the tax system across the country. It seeks to address the challenges of the current indirect tax systems by broadening the tax base eliminating cascading effect and increase compliance by benefiting the manufacturers and the consumers.

A seminar on **'Implication on Constitutional Amendment of GST on Trade and Industry'** states that "Introduction of GST marks an important mile stone in the indirect tax reforms in India. It is likely to benefit all the stake holders namely the governments, the trade and industry and the common man at large. If will pave way for creation of a common market across India and harmonize the taxing of consumption of goods and services uniformly both at central and state level".

It further states that India should reformulate the GST bill with great insight. The ultimate objective is to achieve a low tax rate structure along with few rational exemptions. An effective and transparent administrative system should be set up with world class computer system at central, state and inter-state levels that will create and awareness to modern tax payers (consumers).

Statement of Problem

The fundamental idea behind the concept of GST is to eliminate various forms of indirect taxes that are levied and collected at different points of consumptions and to overcome the shortcomings of the existing indirect tax system. This study analyses how GST bill would impact the manufacturing sector of our country and benefit the end consumers.

Objective of the study

- To understand the concept of GST and its policies.
- To analyze the impact of GST on end consumers of manufacturing goods.

Scope of study

The present study is made to understand GST and its impact on manufacturing sector and end users. Its main focus is to understand whether GST will burden the end users (i.e. Common man) or will it be beneficial. A critical analysis is made on the impact of GST on price of goods.

Methodology

This research is an exploratory research.

Methods and Materials

Primary data for the study includes views on the present tax system and the impact of implementation of GST by an expert from service tax department through means of personal interview.

Secondary data for the study includes provisions discussed about GST under various Article, Journals, Newspaper, and Service tax book

Analysis

Key Features of the proposed GST Bill

The proposed GST Bill which seeks to amend the constitution provides for subsuming of various indirect taxes levied at state and central level under a single tax regime. This is expected to broaden the tax base, reduce economic distortion, increase tax compliance and reduce cascading effect. GST will be levied on supply of goods and services on the consumer tax base with full input tax credit mechanism. It is also expected to create a common market across the country by improving the efficiency in factors of production and distribution in respect of all intra and inter- state transactions.

The ideal GST structure will not differentiate between goods and service and are subjected to one tax at the point of final consumption. Goods include all materials, commodities and articles-Article 366(12).Services means anything other than goods proposed-Article 366(26A). But it excludes the following:

1. Exempted goods and services which include alcohol, electricity and real estate. Petroleum products are to be brought under GST from a later date.
2. Goods and services outside the purview of GST.
3. Transaction below threshold limit.

Another important feature of GST Bill is that it will have two concurrent components as mentioned below-

1. Central Goods and Service Tax levied and collected by Centre(CGST)
2. State Goods and Service Tax levied and collected by state(SGST)

And an integrated Goods and Service Tax called IGST would be levied by the Centre on all inter-state transactions involving supply of goods and services. Cross utilization of input tax credit between the Central GST and State GST would in general not be allowed except in case of inter-state transactions subject to certain conditions.

To the extent feasible, uniform procedure for collection of both Central GST and State GST would be prescribed in the respective legislations for Central GST and State GST. Additional tax not exceeding 1% on inter-state supply of goods is to be levied by the Centre for 2 years or longer as recommended by GST Council. The Tax collected will be accrued directly to the state from where the supply of the goods originate. Compensation for the loss of revenue to the state for a period of 5 years will be given.

Perceived Benefits of GST Bill to the Government

An ideal GST regime intends to create a harmonize system of taxation by subsuming all indirect Taxes which simplifies the tax system. GST bill also seeks to address the challenges with the current indirect tax system by broadening the tax base and reducing the number of exemptions. It improves compliance of the tax payer and boost revenue collection in long run for both State and Centre. It will also pave way for creation of a common market across India which will lead to the efficient use of resources.

GST at State level will be a major improvement in the Tax base for future revenue generation. Currently the major revenue contributing goods like alcohol for human consumption, electricity and real estate are outside the purview of GST. Thus the GST bill will be more progressive. Moreover the center has promised to levy an additional tax of 1 % on all interstate transactions for a period of about 2 years for the states.

Perceived benefits of the GST Bill to the consumer of Manufacturing Goods

Introduction of GST is expected to simplify our present Tax system in which only a single uniform Tax will be levied on both goods and services at state and central level. This tax will amalgamate several other indirect taxes like Customs Duty, Service Tax levied by Centre, Sales Tax and VAT levied by respective states into a single tax. This will actually reduce the cascading effect of Tax on production and distribution of goods and services which in turn will lead to decline in the prices of goods and services.

The proposed Goods and Services Tax (GST) would reduce manufacturing cost and benefit end-consumers. The elimination of multiple tax structure at Central and State levels would make the manufacturing sector viable and globally competitive. A slight percentage reduction in the production cost will increase the profit by a comparative higher percentage which will create way for reduction in the price of goods and benefiting the end consumers.

Roughly more than half of trucks transit time is wasted due to material scrutiny and local based tax compliances which negatively impact the overall production and logistics time. These unproductive transit hours along with regulatory impediments cause in efficiency in the working of Indian manufacturers.

To overcome the above problem, an integrated GST (IGST) will be levied by the Centre for all inter-state transactions involving supply of goods and services. Thus abolition of CST and Entry Tax would reduce the cost of production of goods and services and also it is considered as a great boon to the consumers because the movement of goods between inter-states is faster and the consumers can obtain the goods at a reduced cost.

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.

Table No -1: Comparison of Tax under the Current Indirect Tax System and the GST regime

Transaction	Current System	GST
Cost of Raw Materials	100	100
Tax on Raw Material @ 10%	10	10
Value added by Manufacturer	20	20
Tax payable by Manufacturer	2 (CENVAT : 10% of 20)	2 (GST : 10% of 20)
Retailers Cost	132	132
Value added by Retailer	20	20
Tax Payable	15.2 (Sales tax : 10 % of 152)	2 (GST : 10% of20)
Final price paid including Taxes	167.2	154
Of which taxes	27.2	14

Source: The Constitution (122nd Amendment) (GST) Bill, 2014.

In the above example the cost of raw materials is 100.Mnaufacturer and retailer add Rs 20 value each. The tax rate is assumed to be 10 % for all Taxes.

Under the current tax system both Excise and Sales Tax are VAT system, but the set off facility is not available for all the taxes. Thereby sales tax is applicable to the excise duty (CENVAT) paid. Thus tax paid is 12(Excise) plus 15.2 (Sales Tax).note the ‘tax on tax’ effect where the final selling price not only has two taxes, but also ‘tax on tax’.

Under the GST system, there will be only one single uniform Tax with input credit mechanism. This means each individual pays tax only on the extent of value added by him and thereby the total tax is less resulting in lower price of goods benefiting the end consumer.

A clear comparison is made between the present system and the GST system of tax calculation. The cascading effect is eliminated in the GST system which reduces the final price of the product by Rupees 13.2 /unit. And the benefit of this is enjoyed by the consumer.

We could see a major dip in cost, if the taxes paid are refunded on inputs made by producers, distributors and other relevant service providers. Thus consumers will stand by it in order to gain the cost benefit translated by the producers into lower prices. This will also lead to efficiency of supply chain structure because it ensures that even if one link in the supply chain will insist on an invoice, the entire chain will have to come under the Tax net. Therefore setting up provisions of GST has far reaching implications for manufacturers and distributors.

It is also estimated that a reduction in cost of goods will lead to an increase in companies’ profits, thus attracting investors. The Centre and state will be in favor for this. The broadening of tax base along with greater compliance would boost the revenue collections because the tax rate itself is unlikely to increase the revenue.

Results and Discussions

The existing tax system in India provides for levy and collection of multi-layered taxes both at Centre and State level in accordance with the taxing powers. GST is the simple tax regime in which only a single tax shall be levied covering both goods and services at both State and the Central level. This tax will replace a number of existing taxes and mitigate the cascading effect which will reduce the cost of production and distribution.

Also in the present tax regime the manufacturers and distributors file returns for different taxes on different dates but under the GST regime they will have to file the returns only bi-annually or quarterly basis fixed by the government.

Under GST, the tax is effectively paid not on the value of the output, but on the value added to the output at that particular stage. Since set-offs are only available once tax is paid, incentives for compliance increase as each person in the chain ensures that the previous person has paid the tax. This will reduce tax evasion.

Central government has ensured that few items like alcohol, electricity etc. are exempted from the purview of GST because they are the major revenue generating items for the state. And an additional tax of 1% to be levied for all inter-state transactions which would compensate the loss likely to be incurred by the state for a period of about 2 years. Though initially the States may lose out on its revenue, in the long run both the State and Centre will be boosted up with its revenue.

Comments

Implementation of GST bill will have a positive impact on manufacturers and distributors because the cascading effect is reduced and supply chain cost comes down. This will not only reduce the final price on the goods but also increase the competitiveness of the industry along with profits and create a common market. And we observe that GST bill will not only reduce the paper work but also increase compliance of manufacturers and distributors.

There is a ‘tax on tax” effect on the final selling price in the present indirect tax system but in the GST regime there will be a single tax levied with input tax mechanism. This means that each person pays tax only on the value added by him. Consequently the prices of the goods reduce because the total tax paid is less. Ultimately implementation of GST bill will benefit both the manufacturing sector as well as the end consumers.

Conclusion

Introduction of a uniform tax rate for both goods and services will lead to a harmonize system in terms of process and procedures between CGST/IGST/SGST law. It will lead to reduction in multiplicity of taxes along with mitigation of cascading/double taxation and help in development of common national market. Under GST there is no differentiation between a good or service whether as an input or as a finished product. The tax paid on inputs is deducted from the tax payable on the output produced. Thus input credit set off operates through the manufacturing and distribution stage of production. The tax is collected only at the place of consumption that is the end users. This addresses the cascading effect of “tax on tax”.

GST will significantly improve the competitiveness of indigenous goods and services leading to accelerated GDP growth. According to Fiscal Responsibility and Budget Management Report (FRBM), the GDP ratio is likely to increase by 2 %.Under the GST regime the tax is effectively paid not on the value of the output but on the value added to the product in the particular stage.GST will also remove tax distortion from the economy and will lead to sustainable higher growth based on competitive strength of the country. Removal of CST will remove physical barriers will enable creation of common market within India against the existing fragmented market. It will also attract more productive investment for growth because of simple tax system.

The prices of the goods are estimated to decline due to elimination of cascading effect of Tax and the amount of tax evasion will reduce considerably. Incentives for compliance will increase. The shortcomings in the existing indirect tax systems like cascading effect on cost of products and services, frequent changes in tax laws and procedures, double taxation, high compliance etc. will be overcome.

Thus to conclude, consumer being on the receiving end of indirect taxes, irrespective of the outcome the GST Bill, is hoping the government to propose a lower RNR rate (Revenue Neutral Rate)which would avoid inflationary pressure on product prices.GST will have a far reaching impact on the manufacturing sector of the country as a whole once it is implemented.

Annexure

A Personal Interview with Mr. S.P. Vasan, Superintendent Division 1 of Service Tax Department was conducted as part of primary data for the study. Following are the set questions asked.

1. How is GST different from the present Tax system?
2. Will the consumers get benefited through the implementation of GST?
3. What is the impact of GST on prices of goods and services?
4. When is the Bill likely to be implemented?
5. What is the likely rate of GST?
6. How will GST increase compliance and who will be benefited?
7. How will implementation of GST Bill impact the manufacturers and distributors in general?
8. How will the cascading effect of tax reduce due to GST Bill?
9. How will the GST Bill impact the revenue of government?
10. Will GST reduce tax evasion?
11. In your expert opinion, do think this will be successfully implemented in our country?

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GST IN INDIA: A SWOT ANALYSIS

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Abstract

Goods and service tax being a broad based, single comprehensive system of tax is in its birth stage in India. Therefore the understanding of the concept of GST is important. The paper therefore studies the concept of GST and also examines the mechanism of it. The paper also focuses on analyzing the SWOT of GST implementation in India.

Key words: *GST, SWOT, mechanism*

Introduction

GST is a broad based, single, comprehensive tax levied on goods and services at each point of sale of goods or provision of service, in which, the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or availing the service; the final consumer will thus bear only the GST charged by the last dealer in the supply chain. With the introduction of GST at the State level, the additional burden of CENVAT and services tax would be comprehensively removed and major Central and State taxes will get subsumed into GST which will reduce the multiplicity of taxes.

Review of Literature

Ahmad, E., & Poddar, S. (2009), GST reforms and inter-governmental Considerations in India, in their working paper have given a detailed explanation about the shortcomings of the current tax regime and the objective of the tax reform. Besides these it also gave options for Centre and State GST. It threw light on the tax base and tax rates for various sectors. It concluded by giving means of harmonizing taxes and ways of administering them.

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Raman S (2010), Migration to GST: Preparedness and level of Knowledge, Understanding, Application and Skills of Human Resources in the Government and the Industry. In this paper, the author has conducted a primary research to know the opinions or the suggestions of top officials, middle level tax officials, tax department staff, trade and industry, professionals and general public. And the author also discuss about GST in different countries, recent developments in GST.

Vasanthagopal, D (2011) in his paper **GST in India: A big leap in the Indirect taxation**, system explained the impact of GST on agriculture, manufacturing industry, MSME, employment, factors of production, price level, housing, Exim trade, poverty reduction, GDP, Government revenue. The whole paper focused on these elements and how they would be affected with the implementation of GST.

Taqvi, et.al (May 2013), **Challenges and Opportunities of Goods and ServiceTax (GST) in India.** The author gives a brief introduction to GST and he also explains the objectives, features, opportunities, challenges and benefits of the GST.

Towards the GST: An Approach Paper (2013). This report is furnished by the FCCI which gives information on the constitutional amendment, recent developments, thresholds limits, classification of goods and service, tax rates, exemptions, etc.

Jangra, A., & Narwal, K. (2014), **Application of CGE models in GST: A literature review, the** authors have assessed different literatures on GST to find out CGE application in GST by examining 21 research papers during the period 1989-2012. The major finding of the paper was that CGE was mostly used for welfare effect of GST and various aspects were still waiting to be opened.

Gupta, N. (2014), Goods and service tax: its impact on Indian economy, the author has made an attempt to study concept of goods and service tax and its impact on the Indian economy, shortcomings of the current taxation system in India, working of GST in India. It also analyzed the benefits due to the implementation of GST over the current taxation system in India.

Kumar, N. (2014), **Goods and services tax in India: a way forward**, presented the background, salient features and the impact of GST in the present tax scenario in India. It also highlighted the benefits to various stakeholders.

Legislative Brief the Constitution (122nd Amendment) Bill, 2014 (GST) (2015). This report was furnished by the PSR legislative research. It gives the brief details on GST with respect to the mechanism of GST, exemption, comparison between current indirect tax and GST, comparison between the bill passed in the year 2014 with the bill passed in the year 2011.

Kumawat, Paliwal (2015), Emergence of goods and services tax (GST) in India, paper also presented the background, salient features and the impact of GST in the present tax scenario in India. It also gave details of the taxes that would be subsumed with the implementation of GST.

Statement of the problem

Every initiative taken by the Government will have both pros and cons. It is important to study which of these two is greater. Therefore an attempt has been made to analyze the SWOT of GST implementation in India.

Significance of the problem

Since India hasn't 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 before its implementation as it would affect different stakeholders differently.

Objectives of the study

1) To study the concept of Goods and Services Tax
2) To examine the mechanism of Goods and Services Tax
3) To analyze the SWOT of GST implementation in India

Limitations of the study

The study is restricted only to India although other countries have made great progress in this field.

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.

Goods and service tax in India

Emergence of GST

The concept of VAT was introduced in the year 1986 to overcome the limitation of levy of duty i.e., cascading of taxes, where duty was collected on both inputs used and outputs produced. This problem was addressed with the help of VAT where the tax paid on the inputs can be deducted from the tax payable on the outputs produced. Even though the problem of cascading of taxation was addressed there were other problems like goods and services were taxed differently, sectors like real estate, oil and gas productions, etc were exempted from tax, several central and state taxes were exempted from tax. Thus, in order to overcome these problems GST was introduced. In the year 2011, 115th amendment was made in the constitution bill for the introduction of GST but the bill was lapsed with the dissolution of 15thLok Sabha. And in December 2014 122nd amendment was made in the constitution bill for the introduction of GST and the bill was passed by the Lok Sabha. It has not been approved by the Rajya Sabha yet.

Scope of GST

- GST would be applicable on the supply of goods or services.
- GST exempts alcoholic liquor for human consumption.
- Taxation of the following items will be kept on hold as GST initially would not be apply to: (a) petroleum crude, (b) high speed diesel, (c) motor spirit (petrol), (d) natural gas, and (e) aviation turbine fuel. The GST Council will decide when GST will be levied on them.
- Tobacco and tobacco products would be subject to GST. It might also be subject to excise duty by the Centre.

Expected workable pattern of GST in India

The GST system is based on the same concept as VAT. Instead of the set-off being available for the tax paid in the previous level in GST it would be charged only at the time of sale. Important aspects to be observed:

- Components: GST will have two components, namely, Central Goods and Service Tax and State Goods and Service Tax.
- Rate: Rates charged across all states and the central level will be uniform along with the regulations, definitions and classifications
- Applicability: GST will be applicable to all Goods and Services sold or provided in India, except from the list of exempted goods which fall outside its purview.

- Payment: GST will be charged and paid separately in case of Central and State level.
- Input Tax credit: The facility of Input Tax Credit at Central level will only be available in respect of Central Goods and Service tax. In other words, the ITC of Central Goods and Service tax shall not be allowed as a set-off against State Goods and Service tax and vice versa.

Mechanism of GST

The idea behind the implementation of GST was to subsume all existing taxes of the state and Centre under one value added tax, which would be levied on all goods and service. No good or service would be exempt and also there would not be any differentiation a between goods or services. This rule would apply to both input and finished product. The tax paid on input tax would be deducted from the tax paid on the output produced and it continues from manufacturing stage to the distribution stage. Tax would be collected only at the place of consumption. This system of tax addresses the issue of cascading of taxes.

Below given table explains the modus operandi of GST. It tries to compare the taxation under the current system and the GST.

Table No:1: Comparison of tax under the current indirect tax system and the GST regime

Particulars	Current system	GST
Cost of raw material	100	100
Tax on raw material	10	10
Value added by manufacturer	10	10
Tax payable by manufacturer	1 (CENVAT: 10% of 10)	1 (GST: 10% of 10)
Retailer’s cost	121	121
Retailer’s margin	10	10
Tax payable	13.1 (Sales Tax: 10% of 131)	1 (GST: 10% of 10)
Final price paid including taxes	144.1	132
Of which taxes	24.1	12

Source: Hypothetical construction

In this example, the cost of the raw material is 100. The manufacturer and retailer add Rs 10 value each. The tax rate is assumed to be 10% for all taxes.

- **Current tax regime:** Both Excise and Sales Tax are a VAT system, but the set off for taxes paid is not applicable across these taxes. Therefore, sales tax is applicable to the excise duty (CENVAT) paid. Thus, tax paid is 11 (excise) plus 13.1 (sales tax). Here there is ‘tax on tax’ effect where the final selling price not only has two taxes, but also a tax-on-tax.

- **GST regime:** There is a single tax with input credit. This means that each person pays tax only on the value added by him. Consequently, the total tax is less, resulting in a lower price of the good.

This comparison makes it clear that with the implementation of GST, the ultimate consumer will get the goods and services at a lower price.

SWOT Analysis

Strengths

- GST provides a comprehensive and a wider coverage of input credit set off service tax credit could be used for the payment of tax on the sale of goods etc.
- A single GST could be used instead of other indirect taxes at the state and central level.
- It would end the cascading effects.
- There would be uniformity of tax rates across the states.
- It ensures better compliance as the aggregate tax reduces.
- It helps in the reduction of prices of the goods and services to the consumer with the reduction of tax.
- It would reduce transaction costs and unnecessary wastage to both government and individuals.
- It encourages transparency and unbiased tax structure.
- It brings efficiency in the indirect tax mechanism.

Weakness

- It doesn’t include alcohol and petroleum products which would lead to incurring of huge losses.
- It requires strong IT infrastructure which is not highly developed in India.
- Single GST rate would be high compared to individual indirect tax rate.
- In reality, it might result in a dual tax system in which both state and the Centre would collect tax separately.
- Dealers paying VAT in the state will be required to pay GST at the Centre
- Sudden implementation of GST might create confusion to the common man

Opportunities

- Reduction in tax burden will increase the competitiveness of Indian products in the international market
- There would be a gradual increase in the revenues of state and the union
- Helps reducing corruption as the implementation of GST would result in a gradual decrease of procedures and formalities

Threats

- It is entirely dependent on the efficiency and effectiveness of the system
- Beneficiaries of the system are uncertain. It could be either state or the Centre. This would create a chaos while preparing budgets and financing polices
- Lack of co-ordination between the Centre and the state might affect the system and also the revenues generated

Interpretation of the SWOT Analysis

From the above SWOT analysis it is clear that GST would create uniformity of taxes and also reduce tax burden. This in turn would increase revenues of the state and the union at the country level and increase competition at the international level. But this in reality might appear to be a dual tax system and would also require a strong IT infrastructure. Besides this, it is entirely dependent on the efficiency of the system. Co-ordination between the Centre and the state only can help in its implementation and execution of the proposed plan. Therefore before implementation of such a tax regime, it should be carefully examined at every levels to benefit all the stakeholders.

Suggestions

- Sufficient preparations need to be made by both Central and State governments for implementing GST at all levels
- Besides Government, there could be other professional bodies which could assist in the execution of the proposed system
- Tax-payers should be clear about the system and the mechanism
- Alternative schemes should be offered to those who would be adversely affected.
- Policies should be framed to protect the interest of the SSI and small traders who could be adversely affected.

Conclusion

Implementation of GST will be a significant step towards a comprehensive indirect tax reform in India. History has proved by giving success stories of various countries that have benefited from moving to a GST regime. From the SWOT analysis presented in the paper it is clear that GST would not only bring about an efficient and a transparent system but also help in removing economic distortions. With a well-planned GST regime, India would be both business friendly and consumer friendly economy. At present, consensus among political parties and the states only would help in the successful implementation of GST.

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AN OVERVIEW OF GOODS AND SERVICE TAX - REDUCTION OF TAX BURDEN

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Abstract

Goods and Service Tax, a significant breakthrough and the next logical step towards a comprehensive Indirect tax reform in India. This paper gives an overview of GST and further discusses how the mechanism reduces the tax burden and other cascading effects. Brief description is given on the history of tax, GST background, introduction, salient features and illustration of reducing tax burden. GST is the new story of VAT to be implemented in India decision on which is pending. It aims at creating a single and unified market benefiting both corporate and economy because this is the only Indirect tax that directly effects all sectors of economy, it enables widespread setoff for Input Tax Credit(ITC) and subsuming of many indirect taxes having a dual concept model operating at centre(CGST) and state(SGST) to maintain commonality. Therefore this paper focuses on the overview and reducing tax burden through GST.

Keywords*: *Cascading effect, CGST, ITC, SGST, Subsuming.

Introduction

Meaning of Tax

The word tax is derived from the Latin word "*taxare*" meaning to estimate. It is a compulsory contribution to the state revenue levied by the government on worker's income and business profits or added to the cost of some goods, services and transactions. In general it is a financial charge or fee imposed by the government and tax is the principle source of revenue for a country's government.

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History of Tax

The history of tax in the world is dated back to ancient Egypt around 3000 B.C in the first dynasty of the old kingdom where Pharaoh would conduct a biennial tour of the kingdom collecting tax revenues from people where early taxation is also mentioned in the Bible. We can find tradition of taxation in India from ancient times where references can be drawn from many ancient books like “Manusmriti” and “Arthasastra”, even Islamic rulers imposed “Jizya”

If we look into the Indian context, India witnessed remarkable changes in the whole taxation system during the period of British rule, even though it was highly favourable to the British they incorporated modern and scientific methods of taxation. In 1922, a paradigm shift occurred with the enactment of a new income tax which led to setting up of a comprehensive taxation system with own administration. In 1924, a Central Board of Revenue was created to administer central taxes. The attainment of independence marked another shift for taxation whereby taxes were paid for welfare of the people rather than compulsion from British.

Broadly, there are two types of taxes namely, Direct and Indirect Taxes. Taxes in India are levied by the central and the state governments. Some minor taxes are also levied by local authorities such as municipality or local council. The authority to levy tax is derived from the constitution of India which allocates the power between centre and state.

Table No: 1: Major milestones in Indian Indirect Tax Reforms

1974	Report of LK Jha committee suggested VAT
1986	Introduction of a restricted VAT called MODVAT
1991	Report of the Chelliah committee recommendations accepted by the Government
1994	Introduction of service tax
1999	Formation of empowered committee on state VAT
2000	Implementation of uniform floor sales tax rates abolition of tax related incentives granted by states
2003	VAT implemented in Haryana in April, 2003
2004	Significant progress towards CENVAT
2005-06	VAT implemented in 26 more states
2007	First GST stuffy released by Mr. P. Shome in January
2007	Finance minister Shri. P. Chidhambaram announces for GST in budget speech
2007	CST phase out starts in April
2007	Joint working group formed and report submitted on GST
2008	Empowered committee finalizes the view on GST structure in April.

2009	First discussion paper on GST by the empowered committee
2014	The constitution (122nd Amendment Bill) was introduced in Lok Sabha by Finance Minister Arun Jaitley on 19th December.
2015	The bill passed by the Lok Sabha on 6th may
2015	Bill was moved to Rajya Sabha on 11th May (Report will be at the end of monsoon session)

Source: International Journal of scientific research and management (IJSRM) ISSN (e): 2321-3418(Years 1997 to 2007)

Introduction of Goods and Service Tax

If the value added tax (VAT) is considered to be a major improvement over the pre-existing central excise duty at the national level and sales tax system at the state level, then the Goods and Service Tax (GST) will be a further significant breakthrough, we can say it is the next logical step towards a comprehensive indirect tax reform in the country. The concept of GST has gone through various stages and phases not just from present scenario but from past few years.

In 2000, the Vajpayee Government started discussion on GST by setting an empowered committee headed by Asim Dasgupta (Finance minister, Government of West Bengal). Later it prolonged its discussions and the proposal of GST was announced by Shri P. Chidambaram (Finance Minister) in the budget speech of 2006-07, which led to formation of empowered committee of State finance ministers which gave the report and the model of GST including design, road map for implementation etc. the empowered committee released its first discussion paper on GST in India on 10th November, 2009.

A dual GST model has been accepted by the centre, it has two components, the Central GST to be levied and collected by the centre and the State GST to be levied and collected by States.

With introduction of GST Central Excise Duty, Additional Excise Duty, Service Tax, Additional Duty of Customs, State VAT, Entertainment Tax, Taxes on Lotteries, Betting, Gambling and Entry Tax (not levied by local bodies) would be subsumed within GST. For further development on GST a joint working group consisting of officers from central as well as state was constituted. The Goods and Service Tax (GST) Bill officially known as the Constitution (122nd Amendment) Bill, 2014 to be implemented in India from April, 2016. It was introduced in Lok Sabha by Finance Minister Arun Jaitley on 19th December, 2015 and further moved to Rajya Sabha on 11th May, 2015 and report will be given at the end of monsoon session. The further process is pending until the decision given by Rajya Sabha.

Review of Literature

According to **Prasad (April 5th, 2015)** GST will enable simplified Indirect tax regime as per the proposal given and therefore its implementation will remove complications and multi-layered taxation mechanism.

Mehta (April 5th, 2015) points out that the implementation of GST will at least increase 1.5% to 2% GDP due to cost reductions and other changes made in tax system, it will also make black money impossible as the transactions can only be routed through legitimate route only.

Zhong (March 19th, 2015) explains the idea of replacing patch work of taxes with a single nationwide sales levy, lowering of commercial barriers, the government study estimates that broad GST would deliver an immediate boost output of 1% to 2% and lasting gains in productivity.

Stromer (December 9th, 2014) suggests if GST system comes into effect the infrastructure develops and the logistics service will be increased and improved. The implementation of GST alone can boost growth of the economy by 2% and reduce logistics cost by 15%.

According to **Garg (2014)** the impact of GST on Indian Indirect tax will reduce the tax burden and boost overall growth with the new proposal which highlights subsuming of taxes

Gupta (2014) is of the opinion that GST assures single taxation system making tax compliance easier and more effective and which boosts our Gross Domestic Product (GDP).

According to **Sharma and Neha (2014)** GST is a better approach of charging tax on Goods as well as Services to solve the existing problem of tax evasion, distortion and cascading effect which can be minimised through this and broaden tax base structure increasing tax revenues which may be used for the growth the nation.

Shah (2014) examines that GST is set to integrate state economies and boost overall growth by removing tax barriers between states and low tax rate by increasing tax base and minimising tax exemptions through proposed GST Model.

IANS (Indo Asian News Service) (2014) points out that the final consumer will bear only GST charged by the last dealer in the supply chain with the set off benefits at all previous stages.

Kelkar (2009) analyses that GST will bring a qualitative change in the tax system by redistributing tax burden equitably, boosts GDP in the long run through cost reduction and it will be successful if taken in similar fashion at both centre and state.

Statement of the problem

Goods and Service Tax system subsumes various taxes and avoids the problem of multiple or double taxation and other indirect taxes having cascading effect thereby reducing the burden of taxes. Therefore creating a single, unified market to make economy stronger breaking tax barriers between states and integrating India through uniform tax rate reducing the burden overall. This study analyses to what extent the burden is reduced and how the mechanism works.

Objectives of the study

1. To give clear overview of new indirect tax reform, Goods and Service Tax (GST)
2. To examine how the GST mechanism reduces the tax burden eliminating the multiple taxation and other cascading effects.

Scope of the study

The study aims at discussion on the GST overview and mechanism reducing burden of tax in India. The study focuses on the Indian indirect tax reforms, milestones, developments and economy. The scope of the study limits to the Indian context i.e. India's taxation, mechanisms and further growth and development of the country.

Research methodology

The research paper is an attempt of exploratory research on a conceptual analysis where the data is based on the secondary sources like journals, magazine, articles and media reports.

Discussion

Overview of GST

Goods and Service Tax proposed to be comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level. It will replace all the indirect taxes levied on goods and services. Any commodity in general is produced on the basis of physical inputs as well as services, there should be integration of VAT on goods with tax on services at the state level as well at the same time there should also be removal of cascading effect of service tax.

In the present scenario CENVAT and State VAT have remained incomplete in removing fully the cascading burden of taxes already paid at earlier stages, there are several other taxes which centre and state levy, where no set off is available in the form of ITC leading to 'tax on tax' but with introduction of GST, both cascading effects of CENVAT and Service Tax are removed with set-off and a continuous chain of set-off from the original producer's point and service producer's point up to retailers level is established which reduces burden of all cascading effect. This is the essence of GST, this is the reason it is not simply Vat plus Service Tax but an improvement over the previous system of VAT and dis-jointed Service Tax. Now the power of levying Service Tax is given to state as well.

Salient features of GST Model

- GST has two components hence called Dual GST Model. It consists of :
  - ♦ Central Goods and Service Tax (CGST)
  - ♦ State Goods and Service Tax (SGST)
- CGST and SGST are applicable to all goods and services except for certain exempted goods and services outside the purview of GST.
- CGST and SGST are treated separately, taxes paid against CGST shall be allowed to be taken as Input Tax Credit (ITC) for and utilize only for CGST and the same is applicable for SGST.
- Uniform procedure for collection of both CGST and SGST would be prescribed.
- Uniform SGST threshold across states is desirable.
- Tax payer would need to submit periodical returns in common format as far as possible to both CGST and SGST concerned authorities.
- Each tax payer would be allocated a PAN-linked tax payer's identification number with total of 13 or 15 digits. This would bring GST PAN-Linked system in line with prevailing PAN system for Income Tax.
- Inter-State supplies of goods or services in India called Integrated Goods and Service Tax (IGST), which are levied and collected by the centre.

Table No: 2: Subsuming taxes under GST to reduce cascading effect and Tax burden

Central Taxes to Subsumed	State Taxes to subsumed
• Central Excise duty (CENVAT) • Additional duties of excise • Excise duty levied under Medicinal & Toiletries Preparation Act • Additional duties of customs (CVD & SAD) • Service Tax • Surcharges & Cess	• State VAT / Sales Tax • Central Sales Tax • Purchase Tax • Entertainment Tax (not levied by the local bodies) • Luxury Tax • Entry Tax (All forms) • Taxes on lottery, betting & gambling • Surcharges & Cess

Source: Indirect tax committee and ICAI (idtc.icai.org)

Mechanish of GST

Illustration to showcase reducing tax burden under GST

Figure No: 1: Without GST (Intra – State Trade of Goods)

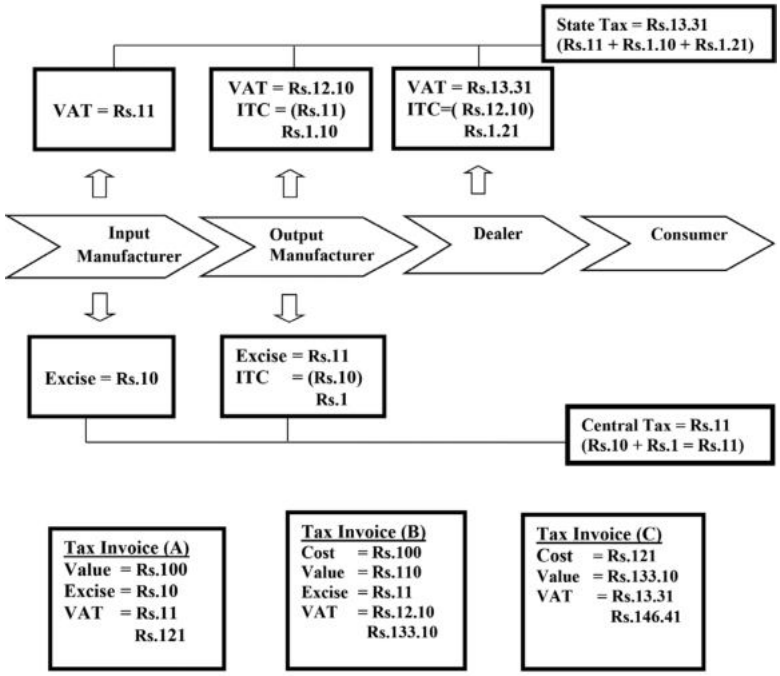
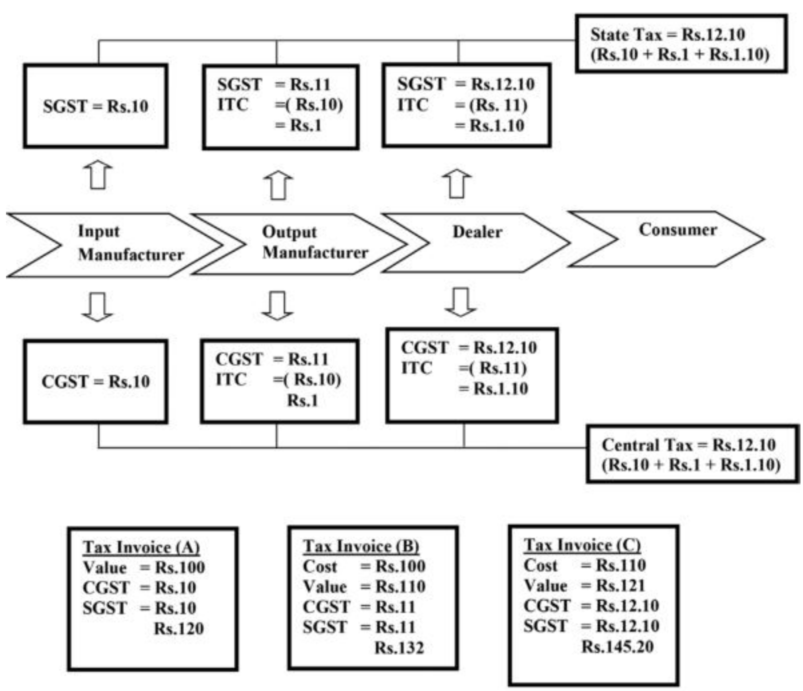


Figure No: 2 : With GST (Intra – State Trade of Goods)



In the above illustration pertaining to Intra-state trading of Goods, considering both the scenarios, without GST and with GST, let us assume that in the present scenario the initial value of invoice is RS. 100 and let the percentage of VAT applicable be 11 and percentage of Excise Duty be 10 whereas in the presence of GST the percentage of tax be 10 for both SGST and CGST as the GST Model is proposed to have uniform rate of taxation

In the present scenario (without GST), when the manufacturer purchases the raw materials he is bound to pay VAT at 11% on the invoice of Rs.100 (i.e. Rs.11) and an Excise Duty at 10% on the invoice of Rs. 100 (i.e. Rs.10). With value addition and ITC the goods pass from manufacturer to the end consumer through dealers where the end consumer pays Rs. 24.31 (Rs.13.31 + Rs. 11).Whereas in the case when GST is introduced, the manufacturer is bound to pay 10% on SGST and 10% on CGST. Therefore with value addition and ITC the end consumer pays Rs. 24.20 (Rs.12.10 + Rs.12.10)

Figure No: 3 : Without GST (Inter-State Trade of Goods)

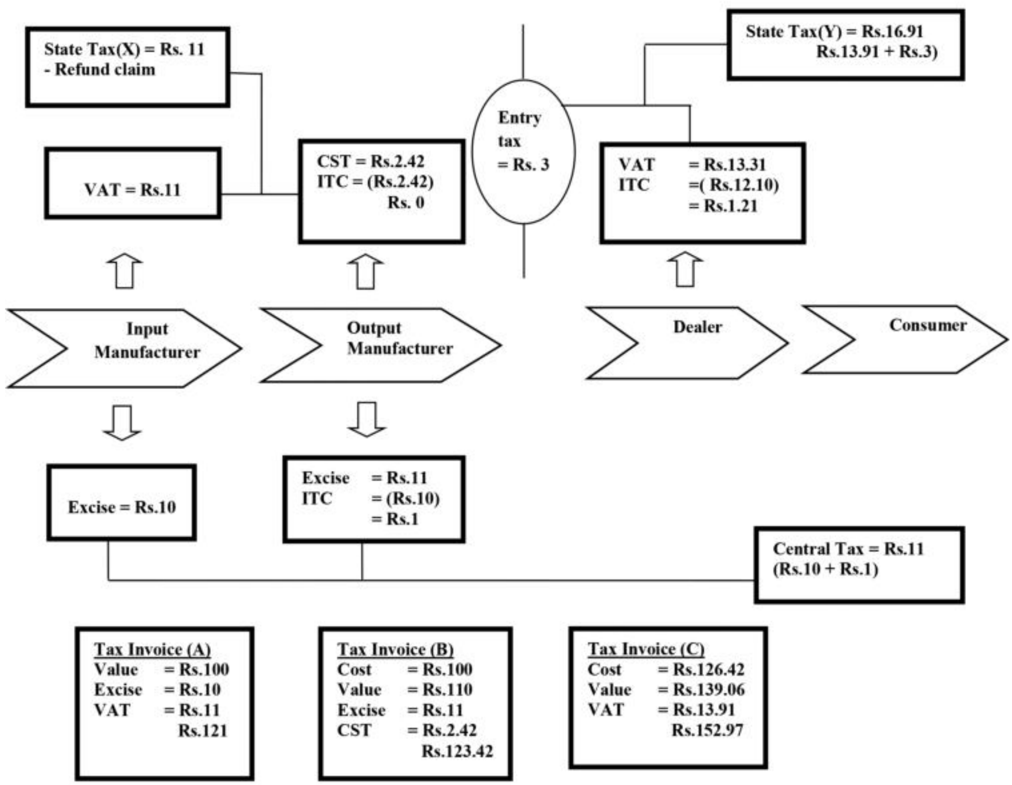


Figure No: 4 : With GST (Inter-state Trade of Goods)

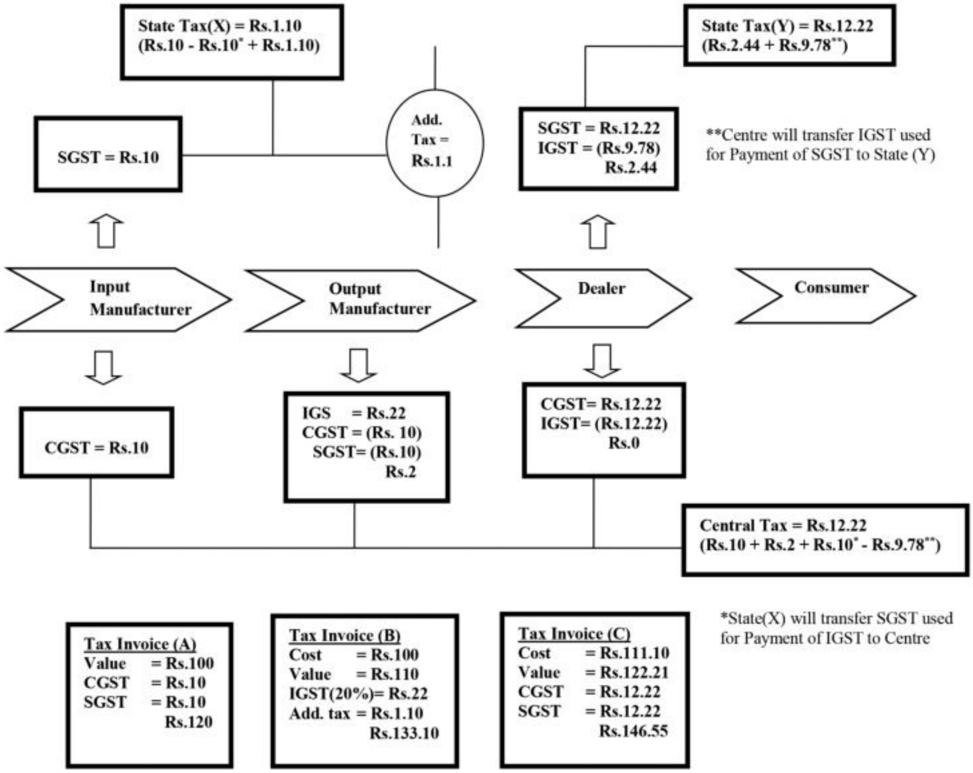


Table No: 3 : Comparison (Trade of Goods)

Sl. No.	Particulars	Intra – State		Inter - State	
		Without GST	With GST	Without GST	With GST
1	Initial Value	Rs.121.00	Rs.120.00	Rs.121.00	Rs.120.00
2	Centre's Taxes	Rs.11.00	Rs.12.10	Rs.11.00	Rs.12.22
3	State (X)'s Tax	Rs.13.31	Rs.12.10	Rs.11.00	Rs.1.10
4	State (Y)'s Tax			Rs.16.91	Rs.12.22
5	States Total	Rs.13.31	Rs.12.10	Rs.27.91	Rs.13.32
6	Total Tax paid to Government	Rs.24.31	Rs.24.20	Rs.38.91 – Refund claim	Rs.25.54
7	Non-Vatable Tax borne by the Business	Rs.11.00	Rs.0.00	Rs.25.00	Rs.1.10
8	Total tax paid by Consumer	Rs.13.31	Rs.24.20	Rs.13.91	Rs.24.44
9	Final value paid by consumer	Rs.146.41	Rs.145.20	Rs.152.97	Rs.146.65

Source: Indirect tax committee and ICAI (idtc.icai.org)

Justification of GST

With reference to the above illustrations and comparison table, 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.

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.

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GST AND ITS PROVISIONS – AN OVERVIEW

Arun Raj.R, Swetha.N, Robin Samuel

Abstract

India has witnessed substantial reforms in indirect taxes over the past two decades. The Goods and Service Tax (GST) is one of the biggest taxation reforms in India, the decision on which is pending in Parliament since March 2011. The central idea behind this form of taxation is to replace existing levies like value-added tax, excise duty, service tax, and sales tax by levying a comprehensive tax on the manufacture, sale and consumption of goods and services in the country. GST is expected to unite the country economically as it will remove various forms of taxes that are currently levied at different points. This paper presents the background, silent features and the impact of GST in the present tax scenario in India.

Key Words*-Goods and Service Tax, Value added tax, Excise duty, Service tax and Sale tax.*

Introduction

Tax policies of a country play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and at the same time, also generate tax revenues to support government expenditure on public services and infrastructure development. The framework of value added tax (VAT), recognized as GST as well in several countries, has been one of the major development in taxation structures worldwide. More than 135 countries adopted the GST/ VAT framework effectively. Indian economy is getting more and more globalised. Introduction of an integrated Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is

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not only desirable but imperative in the emerging economic environment. The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of the world. It will also improve the international cost competitiveness of native goods and services.

Literature Review

1. According to **Suresh (March 2, 2015)** the key point discussed includes centre to educate motivate and convince the state on being GST. This discuss was all about GST would cut down on their own revenue. The discussed pointed out that some sectors like construction, cigarettes, liquor were not in GST. EX: WHILE MAHARASHTRA wanted to keep Octroi with itself where as Telangana wanted the revenue from the stamps and registrations.
2. **Bipin Sapara (Feb 28, 2015)** in this article, analasized the expectations and curiosity whether implement of GST in India. However the finance minister set a positive aspect on enforce of GST and also he mentioned that o=it will play a transformative in India economy and also develop a common Indian market. There is a time limit of availing credit on input and input service and also being increased from 6 months to 1year. There is lot benefits are expected in GST in Indian economy and the most important one it would provide seamless flow of credit across the supply chain for business.
3. **Seth and Dhasmana (august 18, 2015)** according to this articles, we have taken all the stops to implement GST. If this bill passes quickly. We would be able to roll out from the scheduled deadline. Only if there is a co-operation between central and state. If GST is implemented the consuming state will benefit from the first year itself. Whereas manufacturing states might initially faces losses first 2years. The advantage of GST is that we get India as one single unified market.
4. According to **S Krishnamurthy**, adjunct faculty in the finance and control area at IIM Bangalore*.* GST is a proposed tax reforms that centre around efficient and harmonized consumption tax system in the country. The introduction of goods and services tax will lead to the abolition of taxes such as octroi, central sales tax, state level sales tax. Entry tax, turnover tax, tax on consumption or sales of electricity, taxes on transportation of goods and services and eliminate the cascading effects of multiple layers of taxation.
5. **NDTV (December 18, 2014)** articles state that GST will enable the creation of a unified market for facilitating seamless movement of goods across states. There is expectation that if we implement GST is might reduce the transaction cost of business.

   Ex: GST will impact some of Indian leading firms.

   - Dish TV: Impact tax evasions which come down forcing operate to raise tariffs.

- Godrej consumer products: FMCG firms will benefit from labour warehouse cost

  Some of the companies like page industry GST will increase the tax burden. Secondly PVR cinema: implementation of GST might lead to lower entertainment taxes.

Statement of Problem

Under GST system the consumer pay fair prices for most of the goods and service at single shot. The cost of doing business increases as they are not allowed to claim services tax an accounting telecommunication and legal services and sales tax on indirect services.

GST will not only make the tax system simpler but will also help in increased compliance, boost tax revenues, reduces the tax outflow. This can be a single tax which will be levied on the product or services which is sold.

The whole country which is one sixth of the world's population would become a single market and hence it would give a fillip as far as trade is concerned.

Objectives of the Study

The study has been geared towards achieving the following objectives:

1) To understand the concept of Goods and Services Tax.
2) To know the benefit of Goods and Services Tax to economy, business and industry and consumer.
3) To examine the features of Goods and Services Tax.

Scope of the Study

The scope of the study is wide since once it is implemented, it might help the nation at large.

Research Methodology

The research paper is an attempt of exploratory research, based on the secondary data sourced from journals, magazines, articles and media reports. Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type. Keeping in view of the set objectives, this research design was adopted to have greater accuracy and in depth analysis of the research study.

Data Analysis Tools

What is the GST?

Goods and Service Tax (GST) is a comprehensive tax levy on manufacture, sale and consumption of goods and service at a national level. In simple terms, GST may be defined as a tax on goods and services, which is liveable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider may claim the input credit of tax which he has paid while purchasing the goods or procuring the service. It is basically a tax on final consumption.

Under the GST regime, both the Centre and the State would have the powers to tax the supply of goods and services right from their primary stage to final consumption. At the centre's level, introduction of the GST will mean that it takes the place of central excise duty, service tax and additional customs duties. At the state level, the GST will take the place of State VAT.

Goods and Services Tax in India

The introduction of GST in India is not an entirely new initiative, but it is to rectify certain basic implementation shortcomings of VAT. So, this is an attempt to improve the existing VAT system further and also the tax system of India.VAT was introduced in the Indian taxation system from April 1, 2005 in an effort to address the with the earlier Sales Tax. The States have switched over from a multiple point Sales tax to a Value Added Tax (VAT) covering all transactions of sale of goods within the State The essence of GST is to correct certain shortcomings of VAT like, the way it taxes inputs and outputs, bringing services under tax net, which is not possible under the VAT system. Hence, GST has been modelled as an extension of the current VAT that would make the tax system more comprehensive and smoother in its functioning.

Key Features of the Goods and Services Tax

1. The GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST.
2. GST will be paid to the accounts of the Centre (Central GST) and the States (State GST) separately, rates for which would be prescribed appropriately, reflecting revenue considerations and acceptability.
3. The GST will be levied on import of goods and services into the country
4. The rules for taking and utilization of credit for the Central GST and the State GST would be aligned.
5. The taxpayer would need to submit common format for periodical returns, to both the concerned Central and State GST authorities.

Dual GST Model

India is a federal country where both the Centre and the States have been assigned the powers to levy and collect taxes through appropriate legislation. It has been proposed that there would be a “Dual GST “model in India, taxes will be levied by both centre (Central GST) and state (State GST) on Goods and Services. Hence, a dual GST would be according to the Constitutional requirement of fiscal federalism.

Taxes to be Subsumed

Central tax and levies to be subsumed:

1) Central Excise Duty;
2) Additional Excise Duties;
3) The excise Duty levied under the Medicinal and Toiletries Preparation Act;
4) Service Tax;
5) Additional Customs Duty, commonly known as Countervailing Duty (CVD);
6) Special Additional Duty of Customs – 4% (SAD);
7) Surcharges; and
8) Cesses.

State taxes and levies to be subsumed:

1) VAT/Sales tax.
2) Entertainment tax (unless it is levied by the local bodies).
3) Luxury tax.
4) Taxes on lottery, betting and gambling.

Why is it Important?

- GST will widen the tax base, improve tax compliance, remove existing unhealthy competition among state
- GST would integrate the tax base and allow seamless flow of input tax credit across the value chain of goods and services which will lead to reduced cost of goods and services
- It will mitigate cascading and double taxation and enable better compliance through the lowering of overall tax burden on goods and services

Limitations of the Study

1. Some Economist say that GST in India would impact 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.
2. Some Economist says that CGST, SGST and IGST are nothing but new names for Central Excise/Service Tax, VAT and CST.

Results and Discussion

- For business and industry
- Easy compliance
- Removal of cascading
- Improved competitiveness
- For Central and State Governments Simple and easy to administer
- Better controls on leakage
- Consolidation of tax base
- Higher revenue efficiency
- For the consumer Single and Transparent tax
- Proportionate to the value of goods and services Reduction of price

Conclusion

GST is a single national uniform tax levied across India on all goods and services. In GST, all Indirect taxes such as excise duty, octroi, central sales tax (CST) and value-added tax (VAT) etc. will be subsumed under a single regime. Introduction of The Goods and Services Tax (GST) will be a significant step towards a comprehensive indirect tax reform in the country. It is expected to bring about efficiency and transparency in the indirect tax mechanism in India. Further it will also encourage an unbiased tax structure that is neutral to business processes and geographical locations. Given the enormity of the implication of GST, it requires a consensus among all political parties and states. However the implementation of GST has been delayed several times on account of lack of consensus among the States and Centre on aspects relating to limiting fiscal autonomy of the States.

History has proved that many countries have benefited from moving to a GST regime.

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GST: A STUDY ON THE TREATMENT OF INTER- STATE TRANSACTIONS IN INDIA

Ashwini G Hadapad

Abstract

India's indirect tax structure has been undergoing a lot of changes since 1947. The method of learning for India has always been, the learning through experience way. When a law is amended, within a period of time, by observing the applicability of the law (i.e. by noticing the loopholes in the law being taken advantage off), corrections are made by re- amending the law to make it more transparent. This is the reason why, GST is thought about by the government for implementation as a replacement for all taxes such as Central Excise, Service tax and Central sales tax. This paper studies the framework of taxes for the inter-state transactions as proposed by the government. It uses the available secondary data for the study which includes- research articles, journals, news articles, books, etc. Hence, this paper brings out the various provisions under the proposed model which are discussed in order to eliminate the issues with regard to double taxation or tax cascading and tax burden on the manufacturers and consumers.

Keywords: *CGST, SGST, IGST, inter- state sales, Input tax credit.*

Introduction

India, after sixty eight years of independence, has transformed into a fast growing economy, which is characterized by fast adaptability. After the implementation of the liberalization, privatization and globalization policy in 1991, there have been a lot of reforms in various sectors of our economy, including the banking sector, the industries, the agriculture, etc. Hence, India is experiencing a growing trend in the economy year on year.

In this race of all the sectors being updated to meet with the global standards, the tax structure of India also has no staying back. The tax reform is now gaining ground with experience and

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exposure and the pace of reform is faster. After achieving an almost impossible task, of moving from sales tax system for taxation of goods at state level to more modern system of value added tax at the state level, now is the time to shift to consolidation of taxes on goods and services and achieve true value added tax system (also referred to – as Goods and Service Tax) encompassing both goods and services at all levels.

The tax reforms aims to address the problems of the current system and establish a tax system which is economically efficient, neutral in its application, attractive in its distribution and simple to administer.

Review of Literature

The Central Sales Tax, 1956, (Act LXXIV of 1956), drafted by the government, in the act has explained in detail all the provisions pertaining to the prevailing sales tax in the country. Also, it has defined various terms in relation to the sales tax applicable.

Poddar, S., and Ahmad, E., (March 2009) in their research paper, "**GST Reforms and Intergovernmental Considerations in India**", have examined in detail on the shortcomings of the current model and the various provisions under the proposed model. Also, it gives a comparison of the rates applicable currently and the proposed rates and how would it impact on the burden of tax.

Rao, **G., (2014)**, in his newsletter titled, "**GST in India: Challenges and prospects**" updates about the proceedings in the GST council and the proposals made. The paper also indicates the various challenges and the implications on the implementation of GST in India.

Gupta, **U.**, **(March 2015),** in his article," **Goods And Services Tax (GST) IGST Model**" has briefly explained the various provisions related to inter- state transactions and has given out the various advantages of the implementation of GST in India. The relevant data is collected from the meetings held by the GST council.

The ICAI, in its paper, "**GST Model for India- Suggestions**", has briefed in the paper about the background of Indian tax structure and also has pointed out some of the issues with regard to the implementation of GST in India. The paper proposes some of the suggestions to the government on the implementation of GST in India.

"**States Sales Taxes**"- by an anonymous author, points out the various pitfalls existing in the current tax structure and indicates how GST could be a solution to cover such pitfalls. It also denotes the vicious circle between which the state taxes are stuck up and the need for its improvement. Also, the paper cites examples of various products and the applicable rates of taxes under the present tax system.

Statement of the Problem

The problem statement of the research is to examine the treatment of inter- state transactions under the current system of tax and how differently it is going to be treated on the implementation of GST in India. Also, this study will help to understand how GST will affect the inter- state transactions and lower the burden of taxes for the assessee; and focus on the efficient functioning of the taxation department in the country.

Objectives

- To study the framework of the proposed tax structure with regard to the inter- state transactions.
- To examine the prevailing tax structure and the proposed GST model in India.

Scope of the study

The study mainly focuses on the impact of the provisions of the proposed GST model pertaining to India. It also considers the provisions applicable to the inter- state transactions on account of the purchase and sale of goods and services between the states.

Research Methodology

Data Collection

The relevant data is collected from various secondary sources such as research articles, journals, news articles, etc. also, the information regarding the provisions is collected from various acts and amendments made. Specifically, the information is collected from the existing Tax provisions and the various proposals made with regards to GST. Also, various reports of the meetings of the Indian GST Council is referred.

Discussions

Current System

India currently has a mixed system of taxation of goods and services; the taxes on goods are described as “VAT” at both Central and State level on goods and it has adopted value added tax principle with input tax credit mechanism for taxation of goods and services. Till the time MODVAT (now called as CENVAT)was introduced in India in 1986, in Central Excise duty, the duty was only an origin based system of tax which was levied at the time of manufacture. Even with the introduction of the State VAT, the tax was a combination of both the origin based single- point tax as well as destination based multi- point tax. Central Excise exists only at the manufacturing level and does not proceed to the retail level.

When glanced at the reforms in the service tax in India, there was no union service tax that existed till the time the Service Tax was introduced in 1994. Later after its implementation also there was no much change seen in the structure of the tax pertaining to the service as, there was a selective levy by the state on services like entertainment tax and electricity tax. At present, with the introduction of the VAT, there exists more of a selective structure than a comprehensive structure of tax.

The structure of the Indirect Taxes in our country is in a sense a dual one where the tax on manufacture of goods and provision of services is collected by the Union and the sale of goods is collected by the State.

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.

GST (Goods and Services Tax)

The Goods and Services Bill (GST Bill), commonly known as the Constitution Bill, 2014 is a VAT which is yet to be implemented in India from April, 2016. GST is said to integrate all the taxes levied on goods and services; including the CST, VAT and Service tax. It is proposed to be a dual model; in the sense, GST is to be implemented at the Centre and at the State. There would be no categorization of goods and services; so both the categories will be integrated in the supply chain and a single rate of tax will be applicable till the product or the service reaches the consumer. It would be called as CGST (Central) and SGST (State). The levy and collection is on the value addition at every point of sale or purchase of goods or supply of services based on input tax credit method but without State boundaries.

GST is known to be the global standard in the context of designing the tax structure of a country. Approximately, 150 plus countries have adopted this model of taxation in their countries. By implementing this model, all the Central and State taxes are integrated and will pave way for competition on the same platform. Also, it will not only open the doors for standardized domestic and international competition but also, mitigate cascading of tax or double taxation and pave way for common national market.

In the context of inter- state transactions, exports will be zero rated and imports will be levied at the same taxes as domestic goods and services adhering to the destination principle. The State VAT will expand its ground of the prevailing VAT for the inclusion of the services. The simplification of the tax structure is expected to be done by merging some of the taxes such as motor vehicle tax, goods and passengers' tax, entertainment tax, electricity duty and entry taxes including those in lieu- of- octroi- local taxes on the entry of goods into a municipal area for consumption, use or sale. For the time being, the bill has kept certain goods out of the purview of GST, which have been a point of contention between state governments and the Centre. These include: Petroleum crude, high speed diesel, petrol, natural gas, aviation turbine fuel and alcohol for human consumption. States shall have the power to levy taxes on these items, except in the case of imports and inter-state trade.

The bill which is yet to be passed proposes that, the inter- state tax will be called as the Integrated Goods and Service Tax (IGST). The Empowered Committee of State Finance Ministers met and approved that, the Union Government will be responsible to levy and collect IGST (which would be equal to the sum of CGST and SGST rates on inter-state supply of goods and services) and the proceeds will be shared between the Centre and the states. The consuming states would get the proceeds of the SGST component of it and the manufacturing states will not get any share but would have the right to levy an extra 1 per cent non-Vatable tax. Under the proposed IGST, states will not have any right to restrict input tax credits on interstate transactions as the idea is to facilitate free flow of tax credits and thus move towards a common national market. Sources also said cross utilization of CGST or SGST credit will be allowed for payment of IGST. Imports into the territory of India will also be deemed as inter-state commerce and attract IGST. IGST on imports, however, will not include basic customs duty, safeguards duty and anti-dumping duty.

Requirements for IGST Model

- There should be a uniform e-registration system
- There has to be a common e-return for CGST, SGST & IGST in place
- Common periodicity of returns for every class of dealers
- There has to be a uniform cut-off date for filing of returns
- The reporting of sales and purchase invoice details prior to or along with filing of e-return should be a mandate
- A system- based verification of returns on monthly basis to be implemented
- A system- based validations/consistency checks on the ITC availed, utilized & Tax payments is required.

It has been suggested that the tax would need to be levied at a combined Centre-State tax rate of 20 percent, of which 12% would go to the Centre and 8% to the states; while they fall below the present combined Centre and State statutory rate of 26.5% (CENVAT of 14%, and VAT of 12.5%).

In order to show the reason for implementation of GST in our country, a simple calculation with regard to the difference in the tax burden borne by the consumer along with the share taken by the states involved in the inter- state transactions and the centre is illustrated bellow:

Table No: 1: Comparison of the impact of tax on the cost of a product with regard to the Present and the Proposed tax structure

Particulars	Inter - State	
	Present	Proposed
Initial Value	121.00	120.00
Centre's Tax	11.00	12.22
State (A's) Tax	11.00	1.10
State (B's) Tax	16.91	12.22
State's total Tax	27.91	13.32
Total tax paid to the Govt.	38.91	25.54
Non Vatable tax borne by the Business	25.00	1.10
Total tax paid by the consumer	13.91	24.44
Final value paid by the consumer.	152.97	146.65

Source:" Goods And Services Tax (GST) IGST Model" by Upender Gupta, (March,2015)

From the above table it is clear that the final value paid by the consumer for a given product will decrease if GST is implemented as there is a decrease in the value of the from Rs. 152.97 to Rs 146.65. Also, the total amount of tax paid to the government is reduced from Rs. 38.91

to Rs 25.54. The state's total tax paid has also reduced from Rs. 27.91 to Rs 13.32. So, implementing this model will help reduce the tax burden on the consumers as well as the manufacturers.

Conclusion

India, being one of the biggest democratic countries is trying to improve in its every move towards development. Amending the tax structure would impact all or most of the sectors of the economy, thereby, initializing the change that is needed for the country. Some of the advantages of implementing the integrated goods and services tax model (IGST) could be:

For the Taxpayers

The IGST may help the dealers in maintaining an uninterrupted input tax credit (ITC) chain while trading between the states. There will be no refund claim for suppliers in the exporting State, as ITC is used up while paying the Tax. The blockage of funds for the inter- state supplier or buyer is eliminated on the implementation of IGST. This model considers both B2B as well as B2C categories as it includes transactions between dealers as well as between dealers and the consumers.

For Tax Administration

The dual-GST model to be implemented in our country is characterized by the self monitoring model, which is easily adaptable and makes it convenient to operate. The tax gets transferred to the importing state on the basis of the destination principle, which makes it easier to administer. Also there is a transparency in the break- up of the proceeds of the inter- state transactions between the Centre and the State.

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IMPACT OF GST ON VARIOUS SECTORS AND CHALLENGES FOR GST IMPLEMENTATION

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Abstract

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. It is a taxation system where there is a single tax in the economy for goods and services. Its main objective is to consolidate all indirect tax levies into a single tax, except customs (excluding SAD) replacing multiple tax levies, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration. It would also bring raise in employment, promotion of exports and consequently a significant boost in overall economic growth and factors of production-land labour and capital. GST would ensure equitable burden between the manufacturing and services.GST would also solve several issues like inflation and fiscal deficit. More important, from the businessman and consumer perspective, this change is going to have substantial impact on the business as well cost to consumers depending upon the structure of the business and location of business and consumer. 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.

Key words: *Sectors, Challenges, Implementation, Taxation, VAT*

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Introduction

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. It is a taxation system where there is a single tax in the economy for 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. Its main objective is to consolidate all indirect tax levies into a single tax, except customs (excluding SAD) replacing multiple tax levies, overcoming the limitations of existing indirect tax structure, and creating efficiencies in tax administration. The single tax would be shared between the Centre and State. (Dual Levy). It would also bring raise in employment, promotion of exports and consequently a significant boost in overall economic growth and factors of production-land labour and capital. GST would ensure equitable burden between the manufacturing and services GST would also solve several issues like inflation and fiscal deficit.

Review of Literature

Kanojia.N(2014) made an attempt to study on Goods and Services Tax in India. This paper result shows that reasons for moving GST i.e., current system of indirect taxes is not able to increase the competitiveness of industry, exports and company. This paper also emphasized that how a goods and service tax is an improvement over VAT and Service Tax.

Syed Mohd. Ali Taqvi(2013), in his article on **“Challenges and Opportunities of GST in India”** stated that GST is the only indirect tax that directly affects all sectors and sections of our economy. The goods and services tax (GST) is aimed at creating a single, unified market that will benefit both corporate and the economy. 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. The objective will be to maintain a commonality between the basic structure and design of the CGST, SGST and SGST between states. In this article he also discussed the possible challenges and threats; and then, opportunities that GST brings before strengthening our free market economy.

Statement of the Problem

The real problems with the introduction of GST in India have not been addressed. The unorganized sector in India employs 93 percent of the workforce. The Small and tiny units producing and selling locally would lose from a unified market which will benefit large scale products. This will aggravate under employment, distress in the farm sector and adversely impact the poorer states. No wonder, GST is being strongly backed by large businesses. Hence, in order to know the impact of GST on various sectors like Consumers, Traders, Manufacturers, Service providers, and government and also to identify the various challenges faced by way of implementation of GST, the present study has been undertaken.

Objectives of the Study

- To know the benefits of introduction of Goods and Service Tax
- To study the impact of GST on various Sectors
- To identify the challenges/hurdles to be overcome by way of implementation of Goods and Services Tax

Methodology

The present study aims to find out the impact of GST on various sectors and challenges to be faced by way of implementing GST. The necessary data were collected from opinions given by financial experts that were stated in the various finance related websites.

Data Collection

Secondary data have been used for analyzing and interpreting the results.

Limitation of the Study

The results of the study provided based on the views of the financial experts. It will be varied in future.

Advantages of GST

It has the following advantages:

1. GST is a transparent tax and also reduces numbers of indirect taxes.
2. GST can also help to diversification of income sources for government other than income tax and petroleum tax.
3. Biggest benefit will be that multiple taxes like octroi, central sales tax, state sales tax, entry tax, license fees, turnover tax etc will no longer be present and all that will be brought under the GST. Doing business now will be easier and more comfortable as various hidden taxation will not be present.
4. The tax collection would become more balanced as most hitherto “tax evaders” would be forced to enter the mainstream.

5. Tax Collection by both the Centre & the States on the whole would increase over period of 2 years
6. Benefit people as prices will come down which in turn will help companies as consumption will increase.
7. It would promote exports
8. Raise employment and boost growth.
9. Under Goods and Services Tax, the tax burden will be divided equally between Manufacturing and Services.

All goods or services likely to be covered under GST except

i) Alcohol ii) Electricity iii) Real Estate

iv) Petroleum Products v) Tobacco products.

Impact of GST on Various Sectors

I) **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 list 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.

II) **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.

III) **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.

IV) **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.

V) **Government-Centre:** 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.

VI) **Government-State:** 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.

Challenges for GST Implementation

Some expected hurdles to be adequately overcome could be as under:

i) One time coverage: Share of revenue from such commodities, which would be kept outside the GST structure, e.g., petroleum products, tobacco, liquor, etc. However, Central Govt. can charge excise duty on tobacco products over and above GST.

ii) Numbers of taxes to be subsumed in the GST, for example stamp duty, property tax, toll tax, etc. are kept outside the GST structure.

iii) Uniformity of 4 rates across most products: All efforts should be made to keep the GST rate as low as possible.

iv) Protecting present/future revenues of States-Compensation to the Under the GST structure, the tax would be collected by the States where the goods or services are consumed, and hence losses could be heavy for the producer States and the Centre would be required to compensate them for loss of revenue. The Centre had earlier come out with a similar scheme to compensate States for loss of revenue following implementation of value added tax (VAT), which came into effect from April 1, 2005. The compensation structure was 100% in the first year, 75% in the second year and 50% in the third year. Compensation was also provided to the States for loss of revenue due reduction in CST rate from 4% to 2%

v) Safeguarding interest of less developed states with low revenue – Due to switch over from origin based to destination based levy model could lead to safeguard the interest of less developed states, which are not major producers but major consumers. The consuming states to get more revenues.

vi) Seamless credit system – restriction baggage. Presently, no cross credits are available across these taxes and the sales tax paid (on input) or payable (on output). 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. However, it is learnt that under the proposed GST regime, the Centre will give input tax credit (set off) only for Central GST and the States will give input tax credit only for State GST. Cross-utilization of credit between Central GST and State GST will not be allowed. Nevertheless, the dealers could claim set-off within the respective heads.

vii) Transition from origin based to destination based: The only exception could be B2C end consumer supplies which could continue to be taxed in the state of origin of the supply.

viii) Standardization of systems and procedures all over India- This includes items such as the taxpayer registration system, taxpayer identification numbers, tax forms, tax reporting periods and procedures, invoice requirements, cross-border trade information systems and IT systems.

ix) Unfair dispute resolution with equal powers. A common dispute resolution mechanism [state+ centre] as well as a mechanism for giving advance rulings would further facilitate trade and industry.

x) Training/ Equipping Tax administration: 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. However, the task is not limited to technical training but also extends to a similar effort to reorient the attitude and approach of the tax administration in order to achieve a fundamental change in mindset.

xi) Adoption of huge capacity IT to improve efficiency and credit states for input credit utilized as taxes collected would be on account of destination state.

Conclusion

More important, from the businessman and consumer perspective, this change is going to have substantial impact on the business as well cost to consumers depending upon the structure of the business and location of business and consumer. 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. However as per the analysis of paper writer, the rate for goods would be lower than it is now in average by 3-4 %. Depending of components of cost, in case of most of the services, the cost to final consumer is going to go up by about 10%.

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A STUDY ON GST AND ITS IMPACT ON GOVERNMENT AND RETAIL SECTOR – AN ANALYSIS

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Abstract

The government has been at the receiving end of the revenue and the retail sector will witness a sea of change with the invent of GST. This forms the core area in this research as it gives a bird's eye view of the entire supply chain related to GST. This paper aims at understanding the impact of GST on the different sectors of the economy wherein the central objective is to throw light on three main aspects to give an overview of the provisions of GST, to analyze the impact of GST on retail sector and to study the impact of GST on government revenues. The ideology behind incorporating this transformation is to replace the existing taxes – VAT, service tax, CENVAT, excise duty to adopt a uniform rate structure on goods and services through GST.gov – revenue, retailers – lesser prices of the final commodity.

Keywords*: GST, VAT, CGST, SGST, Retail.*

Introduction

Tax is a very important source of revenue to the government as it spends its revenue in administrating the country, developing the country's infrastructure and looking after the nation's well-being. India being a developing nation, has been striving to fulfill the obligations of a Welfare state with its limited resources. The government's primary sources of revenue are direct and indirect taxes. Central excise on goods manufactured or produced in India and customs duties on goods imported constitute the two major sources of indirect tax. However, revenue from customs and excise has been declining due to World Trade Commitments and rationalization of commodity duties.

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The tax structure has undergone tremendous changes over the years with the key objective of increasing the tax base and reducing the tax rate. However, achieving this objective to its fullest has not been possible. The service sector has been witnessing a phenomenal growth all over the world although it may vary in the degree and magnitude among the countries. The growth of this can be gauged by the significant contributions from the service sector to GDP, thereby pushing back the traditional contributors like agriculturalists and manufacturing sector.

In the present day, the services are so widespread that they encompass a plethora of activities right from professional services to retail, wholesale, hospitality, research etc. Service sector is occupying the center stage in the economy so much so that in the contemporary world it is synonymous with the advancement of the economy. It is needless to say that exclusion of the service sector from indirect taxes will result in loss of considerable potential revenue.

Many new concepts and trends have taken place in the sphere of Indirect taxes, one such concept that is undergoing a lot of contemplation by the government and the empowered committee and representatives working on behalf of the government for its successful implementation is to introduce GST in India as well as gaining an insight on its impact.

Review of Literature

FICCI's paper aims at discussing how the various aspects of GST should be considered by the empowered committee, government bodies and authorities at various levels before its implementation so as to make it business friendly and a win-win situation for everyone. For GST to be successful it is imperative for all of them to reach a consensus on the underlying proposals.[1]

Girish Garg states that moving towards GST is the next most logical step that India should adopt. He believes that GST will integrate the state economies and create a robust nation. His studies reveal that the tax burden will be equally divided amongst manufacturing and service sectors by lowering the tax rates and increasing the tax base.[2]

The studies conducted by Nitin Kumar talks about how the various indirect taxes have to be subsumed into a single tax regime. With the advent of GST in India it is certain that it will bring about transparency, efficiency and uniformity in tax structure thereby reducing economic distortions.[3]

Neha & Manpreet Sharma's paper lays an emphasis on how GST reduces the cascading effect of tax structures and distortion. Introduction of GST will only be a boon to the economy as it will act as a catalyst in developing industries and various other sectors.[4]

According to Ehtisham Ahmad and Satya Poddar, GST has a likely potential to be the single most significant initiative in the fiscal history of India as it paves way for modernization in the tax regime by simplifying the tax structures and promoting transparency along with enhancing voluntary compliance.

However, the successful implementation of GST solely rests with the rational designing of GST.[5]

Statement of Problem

Government of India is striving to bring in a uniform tax structure in India by introducing GST which will reduce the incidents of double taxation.

Since introduction of GST will increase revenue for government and reduce the incidents of taxation for retailers, this study concentrates on an overview of GST and impact of GST on the government and retailers.

Objectives

- To give an overview of the provisions of GST.
- To analyze the impact of GST on retail sector
- To study the impact of GST on government revenues.

Scope of Study

This concept paper suggests the reasons for introducing GST in India and identifies the impact it has on the government's revenue and the retailers, if a comprehensive GST is implemented in India.

Research Methodology

Sources of Data: The source(s) of data used for this research paper is Secondary Data.

Secondary Data includes the highlights and discussions on the provisions of GST.

Results & Discussions

The data analysis and interpretation is done in three parts. They are as follows:

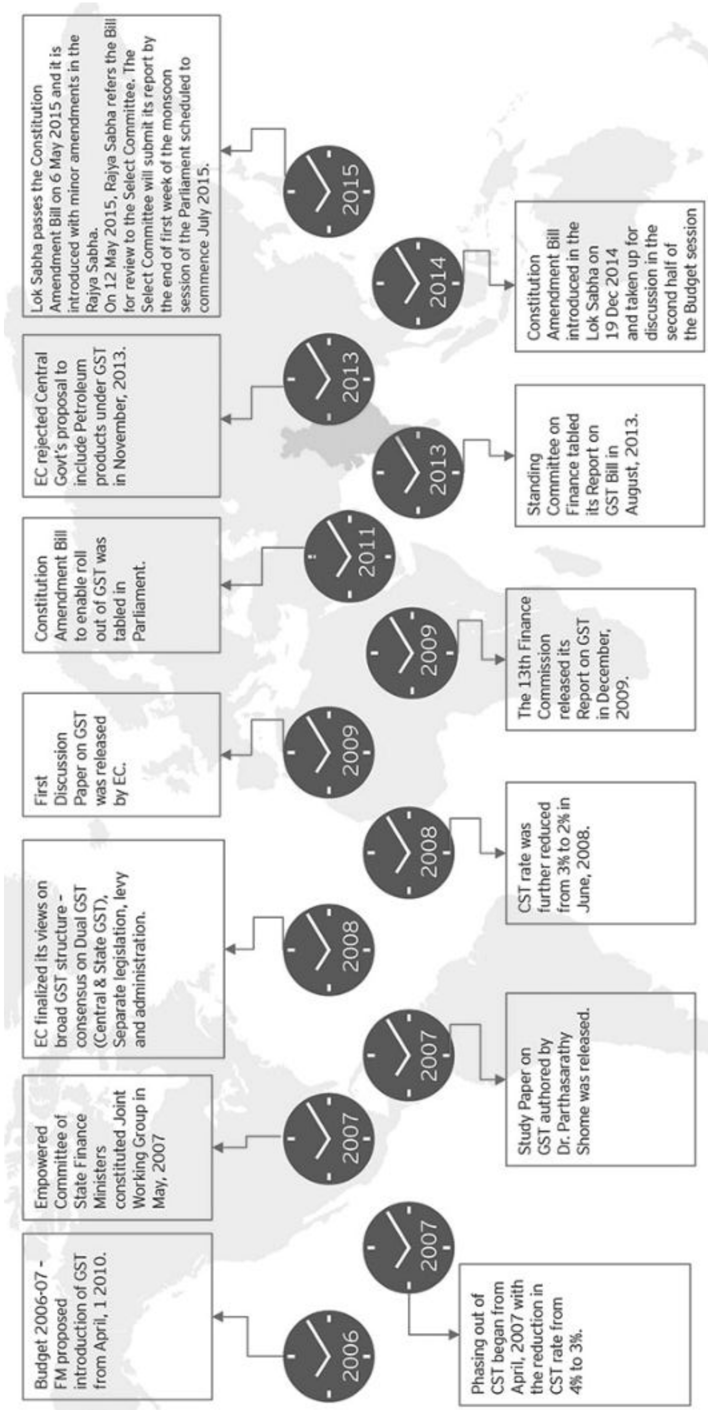
Part I: This section analyzes the factors that have contributed to the advent of GST.

Part II: This section studies how new factors affect the Government's revenues.

Part III: In this section, an attempt has been made to find out those factors that will contribute to the growth of the Retail Sector.

Part I: Advent of GST – An Overview

Figure 1



Source: EY - Goods and Services Tax (GST) (October – December 2014)

From the above figure we can infer the efforts that have been taken right from 2006 where this idea was generated and ever since the core committee has been working towards the implementation of GST.

As the ex-finance minister P.Chidambaram quoted in his Union Budget (2006-07) : "..World over GST attracts the same rate of tax, that is the foundation to GST. We must progressively converge the service tax rate and the CENVAT rate. There is a large consensus that the country should move towards national level GST that should be shared between Centre and States..".

'India is at the cusp of dawn with the GST's introduction. GST will entail a fundamental shift in the way tax policies are made in the country. The archaic indirect taxes structures has resulted in distortions to the economy which has resulted in cascading effect on the tax system and has been a hiccup in the production and consumption structures which has in a big way been an obstacle to the GDP of the country.

The essence of this modern tax system is to bring about uniformity in the rate structure which ensures better compliance, promotes transparency in operations and strict enforcement for others who do not comply with the taxes'.

Features of the GST Model

- The primary feature of GST is to adopt a comprehensive tax base i.e. to have a single rate on all goods and services.
- GST will have dual components: one levied by the Centre (CGST) and the other levied by the States (SGST).
- CGST and SGST would be applicable to all transaction of goods and services except the exempted goods and services.
- The CGST and SGST are to be paid separately to the Centre and State's respective accounts.

The essence of GST is not just the combination of VAT plus service tax but an advancement of the previous tax system.

Inference: From the overview it can be inferred that with the genesis of GST, it will have a positive stimulus on the economy as it will bring about uniformity in the tax structure and how it can contribute to attaining a double digit GDP figure and curb distortions.

Part II: Impact of GST on Government Revenue

The archaic tax structure has witnessed opportunity cost loss on the revenues it could have earned one such example is VAT. Although VAT has been successful there have been shortcomings in the VAT structure at both Centre and State Level.

When GST is introduced the simple transparent and stable tax system is sure to be a boon to the Union Government.

Some States fear how the GST Model will unfold because if the uniform tax rates are lower than the existing rates it will dent collections. However the Central Government has said that it will compensate States for the potential revenue loss. P.Chidambaram has set aside Rs.9000 crores towards the first installment of the balance of CST compensation. Also, instead of an earlier proposal of a uniform GST rate across the country, the Union Government has agreed to have a floor rate of taxation with a narrow band.

CRISIL said "The government has to implement structural tax reforms such as the goods and services tax (GST), which will lift the government's tax revenues, lower the cost of conducting business and boosts growth". The declining trend of the Centre's debt ratio after fiscal 2009 has been driven more by high inflation rather than lower fiscal deficit or faster GDP growth. "With inflation expected to moderate, a strong commitment to fiscal consolidation is an imperative to lower the country's debt-to-GDP ratio".

According to a report by National Council of Applied Economic Research, GST is expected to increase economic growth between 0.9% - 1.7%. Exports are expected to increase between 3.2% - 6.3%.From the above it can be deduced that the State Government must take a leap of faith and consent with the Union's decision towards the implementation of GST as they are backed by a great degree of assurance with regards to recouping losses.

Hence it is evident that GST would simplify India's tax structure, broaden tax base and create a common market across States. This will lead to increased tax compliance and increase India's tax-to-GDP ratio.

Inference: As the government is at the receiving end of revenue, it is necessary for the government to adopt a tax structure without loopholes and GST being a game changer if implemented aims to eliminate the loopholes in the area of indirect tax .

Part III: Impact of GST on Retail Sector

The retail sector in India has grown leaps and bounds over the years. India has witnessed a transformation from a multitude of unorganized family owned businesses to organized modern retailing.

India's retail sector accounts for 22% of the country's GDP and contributes to 8% of total employment.

The key agent of change that GST would bring about in the retail spectrum is, that the services would be eligible for set-off against taxes on goods. This is definitely a positive sign to the retailers as the VAT structure resulted in compliance issues and uniformity of VAT laws resulted in additional cost burden to the retailers.

The previous tax structure was very ambiguous with regards to quantum of input service tax credit as it recognized the manufacturers and not service providers. GST is expected to remove this anomaly, as it would result in a shift to sale of goods from manufacture of goods resulting in redesign of input tax credit. The below illustration explains how GST will benefit the retailers and the ultimate consumers.

Table No:1

Stage of supply chain	Purchase value of Input	Value addition	Value at next stage	Rate of GST	GST on output	Input Tax credit	Net GST= GST on output - Input tax credit
Manufacturer	100	30	130	10%	13	10	13-10 = 3
Whole seller	130	20	150	10%	15	13	15-13 = 2
Retailer	150	10	160	10%	16	15	16-15 = 1

Source: goods and service tax.com

From the above table it is understood that at every stage tax has to be paid thereby increasing the price of the goods. With GST, this tax burden will come downthe retailers will pass on the benefit of the reduced tax incidence to their consumers thereby reducing the prices of goods sold.

One area that requires prime focus with regards to retail sector is MRP based valuations which were litigated under customs and central excise laws. The GST regime must have a sound mechanism in place to combat such issues.

Inference: In the recent past, Indian consumers have always witnessed hikes in the prices. Reduction in the prices will be a welcome new phenomenon for them. With GST coming into effect, their purchases will cost them less and hence they will be willing to shop more. More shopping would mean more revenue for retailers.

Conclusion

After having referred to the various resources mentioned in the literature review and other sources, we can say that GST is a grand bargain and is going to be a game changer for India.

One can be certain that GST is going to have a ratified impact on the Government's revenues.

The retail sector should proactively be prepared to migrate from the old model to the new model to ensure smooth operations under this new regime. This model will be flawless, provided GST is followed thoroughly without falling back on the old forms of taxation.

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A STUDY ON IMPACT OF GOODS AND SERVICE TAX (GST) ON REVENUE OF THE STATE

Eliza Sophia & Maria Goretti Chaithanya. K

Abstract

The study is to show the clear picture about GST and its mechanism and its impression on state's revenue in the country.. GST is not yet been introduced. And hence there is a dilemma in the minds of the consumer, retailer, other parties involved in supply chain about the tax burden. The state government's dilemma is about its impact on the revenue due to the change in the tax structure. The dual system of GST mechanism will help states generate more revenue than it was generating earlier with VAT. The darker side of GST as a threat to state's revenue that is subsumption of various indirect taxes turned out o be major reason for the fear of states about their revenue generation. The government assures the states about the compensation for the loss of revenue but when we see a similar situation accured in the history of finance of India that the government did not release enough funds to compensate for the loss suffered by the states due to Central sales tax (CST). This research will provide valuable information regarding GST and its role in revenue generation; it also highlights the importance of implementation of dual system of GST. Our finding throws light on how it can reduce the consumption of undesirable goods by proposing to introduce higher GST on goods like alcohol cigarette. This also emphasis on the opportunities that GST allows in administering tax compliance efficiently and how is a boon for every party involved and its blunt sides as well.

Key words *–Goods and service tax(GST), Central goods and service tax((CGST),State goods and service tax (SGST),Value added tax(VAT),Central sales tax(CST), Tax compliance, subsume.*

Introduction

The idea of GST was initiated under the leadership of Atal Bihari Vajpayee in the year 2000. The government of India has introduced constitutional amendment bill for GST in lok sabha.

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Report of GST was prepared in the meeting of empowered committee on 20th of November 2007, after certain modifications the final version was prepared and sent to the government of India on 30th Of April 2008. It was decided to be introduced from 1st of April 2010 but due to the fear of loss of revenue to states, and they wrote to finance committee that they were not ready to introduce GST and this is the reason behind the delay. Bill was introduced in the lok sabha by Arun Jaitley the present finance minister and was published on 19th of December 2014.

Goods and service tax is a value added tax and is supposed to absorb most of the indirect taxes like octroi, central sales tax, state level sales tax, excise duty, service tax etc at state level and federal government. It is a tax that is paid by the final consumer while the retailer will be getting credit of the tax that he has paid while buying goods for the retailing. Every party involved in the chain of supplying goods or services to the end consumers will be taxed.

India has a sales tax regime at state level and excise duty regime at federal level to a value added tax separately for both state sales tax and federal excise duty few years back. GST will unify and integrate these tax reforms to a common base. This tax regime aims to convert the country into an integrated market by eliminating various taxes and replacing them with one tax.

GST has dual structure that is central component levied and collected as the central goods and service tax(CGST) and service taxes on goods and services that move from one state to another is state goods and service tax (SGST). Once the GST is introduced in states the states complain about the loss of revenue, so there are provisions made to compensate for it. The compensation may extend upto 5 years. The third main component of GST is dual GST and that is the expected model of GST in India.

GST is levied at the rate of 10% it is ultimately paid by the end users of goods and services. Certain types of supplies are GST free like fresh foods and medical supplies. Certain real estate sales are subjected to GST that is sale of commercial property. Producers of product or service pay tax on the materials required for production and they paid tax is set off when the consumer pays tax on the purchased goods.

Review of Literature

Jaitley in 2015 stated that that “the tax rates during GST regime will be closely aligned to the revenue neutral rates (RNR) of the centre and the state, revenues of the centre and the state governments will not be impacted in the long run.”

According to **MBA RENDEZVOUS empowering MBA aspirants in 2014**, the article mainly focuses on the clarity of GST concept as in when it was stated, when it was propose, by whom was it introduced and the current status of the bill. It also talks about the dual structure of the GST and making the country into unified market by replacing various indirect taxes wit one tax.

It emphasis on the compensation of revenue loss for states. The article infers with its study that reduction in profits of service sector will lead to unemployment and increase the prices that will add up to the general inflation and impacting consumers of their buying capacity.

As reported by **state finance ministers' in 2009** the structure of VAT is being explained and is giving a clear understanding about GST. The article highlights on the amendments of GST, the various indirect taxes subsumed, and products that are exempted under GST.

S.Krishnamurthy, adjunct faculty throws light on how GST is beneficial to common man and its cascading effects and the fear of states on loss of their revenue. It also highlights the fear of states in losing their revenue and concludes introduction GST is a wise decision taken.

Singh in the year 2013 depicts that states' have opportunities to generate revenue when GST is introduced that is by taxing even the service sectors which majorly contribute towards our nations GDP that is 57% and how dual taxation will generate revenue to states.

Statement of the problem

GST is a new tax regime in Indian indirect tax which will bring about change in the tax structure, which will affect the revenue of the states in the country. Therefore, this discussion throws light on why GST should be implemented? Will implementation of GST favor state's revenue or adversely effect, as various indirect taxes will be subsumed with the implementation of GST.

Objectives

1. To enlighten about the features of GST.
2. To analyze the impact of GST state's revenue.

Research Methodology

This paper is a descriptive study and an explorative study with the help of secondary data that is inclusive of articles and use of various professionals on GST and its impact on state's revenue.

Discussion

Salient features of GST

- GST subsumes various indirect taxes they are: At federal level, CENVAT, service tax, Central excise duty etc. State taxes are state VAT, state sales tax, Luxury tax, taxes on lottery and tax on advertisement.
- GST is proposed to be implemented on all goods and services. There are a few exemptions they are: Alcoholic liquor for human consumption. GST council is planning

to revisit, whether GST should be extended for petroleum crude, high speed diesel, natural gas and aviation turbine.

- Center and state should maintain separate accounts.
- As center and state maintains two different accounts, input tax credit of center should be used against centre for payments. Similarly it is applicable incase of states.
- Cross utilization of funds is not allowed except in case of inter state supply.
- Each tax payer would be given a PAN linked tax payer identification number of 13 or 15 digits; this is linked with prevailing PAN based system of income tax.

If GST is levied at 10% which means the GST is to be added to the exclusive price of goods and services. Suppose the price of the product is inclusive of GST then the GST is equal to the 1/11th of the total which means the GST exclusive price is 10/11th of the total. For example: If the GST inclusive price of a product is Rs.110 then the GST would be Rs.10. The GST exclusive price of the product in this situation is Rs.100.

As per the passed bill of GST, it states that GST will subsume various other indirect taxes and it reduces the tax burden, as the parties' end up paying one tax. It is beneficial to the consumers and the parties in the supply chain. But when we see its impact on state revenue many states fear that they will lose revenue as entry tax or octroi is absorbed but the bill assures that if any losses incurred by states will be compensated for the first five years but some states want to be compensated for ten years. States have been assured 100% compensation for their losses, first three years, and 75% in the fourth year and 50% in the fifth year. The finance ministry expects that not all states will need compensation for five years, particularly consuming states may see their revenue increase with the implementation of GST. The council initially proposed to have 27% as GST rate in India but Arun Jaitley mentioned that it would be very high and proposed 18%.

GST is an important source of revenue for the government with the amount of GST collected government can manage the country more effectively. For example: the government can use the GST collected to build infrastructures like schools and hospitals.

The above justification clearly depicts GST, its salient features, important amendments and mechanism of GST model.

ANALYSIS OF GST's IMPACT ON STATE'S REVENUE

GST as Boon for State's Revenue

GST can be used as a tool to curb the over consumption of undesirable goods. Government can set high GST for cigarette and alcoholic products. In economic terms tax varies for different products and services to reduce societies welfare, dead weight loss due to the over consumption of undesirable goods that imposes negative externality. As dual system of GST is proposed to introduce, the states will be levying their own GST apart from central GST and that revenue will be directly deposited to their own treasury. Independence required by the states in the federal level will be maintained. Under GST regime states will have broader tax base. Central government has power to tax goods and services upto their production stage while state government are empowered for collecting sales tax for the goods that are being sold in their region. This system reduces litigation and evasion of tax.

Imported goods are charged with customs duty at the federal level and sales tax at state level. GST will enable states to tax not only on goods but also on services and imports and the federal government has planned to introduce a constitutional amendment to enable states with a power to levy VAT on services and central government to levy tax on sales. This wider tax base is benefit to states. As we know VAT under GST is a tax on value added to the product upto production stage and it will also cover all ancillary services and it will help the product reach its ultimate users and hence tax base is much higher under VAT even if we take pure service sector separately.

As per the above mentioned justification tax will progress and improves adequacy. Both centre and states would have simultaneous jurisdiction on the entire value chain and the tax base is common. Under this dual system of GST tax payers file returns twice that are one with centre and other with state. This will improve the submission of tax and ultimately effecting the improvement in the revenue of the state.

This will make the tax structure simple and maintenance of tax will be much easier than before, it will reduce paper work and human intervention. The cost of collecting tax will be comparatively less. GST is linked with income tax this makes the submission of tax better, this will also take into consideration the sector that is not filing tax, leading to enhancing the revenue of state which will consider unregistered production units cruel and unpredictable conditions. In case of loss suffered by state government, it has set aside Rs. 50,000 crore for compensation as a loss proof jackets on states so that they are not exposed to loss of revenue.

If GST is implemented state revenue increases as justified above and leads to the increase in economic growth from 0.9 within 1.7%. Exports might increase from 3.2% to 6.3%, when exports increase the revenue generated out of exports to states due to GST increases.

GST as a threat to state’s revenue

With the implementation of GST various other indirect taxes like octroi or entry tax will be eliminated and the revenue that the state earns from this source will also be eliminated. As the federal government assured about the compensation for losses to states upto five years, but it cannot compensate forever. Rs 50,000 crore is been set aside to compensate for loss. But without the implementation of GST there would be comparatively less loss of revenue and this set aside amount could be used for the any other development of the states.

According to the 2013-14 budget our former finance minister Mr. P. Chidambaram has set aside 9300 crore for CST compensation but could only release 1940 crore and states hardly had compensation funds, keeping this in mind there is no assurance that the federal government will have enough funds to compensate for five years and further more for extended years if requested by states.

The state government will have to approach the federal government for funds. CST was earlier reduced from 4% to 2% and it will be finally revoked due to the implementation of GST which will lead to the loss of revenue to the states. This is one of the fears of states to accept GST. Since the states revenue is majorly comprised of revenue from indirect taxes and any change in the tax structure will adversely affect the revenue of the state.

GST will have two or three levels of tax rates and that will be shared between the centre and the state with certain percentage and the states cannot change the rates at their will as the rates are collectively decided. As stated earlier every under federal level GST the state should approach the centre to have funds for development, this becomes a threat to richer states that their revenue is being released to poor states to meet their expense on equitable distribution basis. This will put off the fire in states to generate more revenue. GST is favorable to a common man as it reduces the tax burden this has an inverse effect on the loss suffered by states due to change in the tax structure. GST will be progressive only if the government introduces more tax on luxurious products and less on necessities but the whole concept of GST is having single tax or unified tax on a common base. This becomes a hindrance for GST to progress.

The above analysis highlights the positive impact on State's Revenue increasing the GDP in the long run. It also shows the negligible drawbacks of GST which can be rectified with efficient implementation in both state and centre.

Conclusion

As per the study it is clear that change in the tax structure due to the implementation of GST has both complications and also benefits to the state for its revenue. The GST bill assures about the compensation of revenue loss so the implementation has possibilities of incurring loss. But once the economy and state adapts itself to the GST mechanism the state will earn good revenue in the long run and at the same time not over loading the common man with tax burden. It facilitates use of operations, reduction in black market industries and cascading effects of tax at different levels, it also reduces evasion and litigation of tax which will in turn facilitate accumulation of state's revenue. Every service involved in a good in its cycle of reaching the consumer is also taxed, this generates revenue to states. It acts as a foundation for future revenue generation. The present scenario is where service sectors are growing rapidly resulting in source of revenue from this sector as well. According to 2011 data service sector contributes 57% of GDP and 28% from industrial sector this indicates that major revenue of state is from service sector where the efficient tax compliance will happen with the implementation of GST. Without GST Majority of the tax base will not be present in the stream of revenue of state government.

This GST tax regime will be improved as compliance of tax is computerized at all levels. As GST is an exemption of food articles and proposing to introduce high tax on luxury goods, this will ensure state adequate and stable funds or resources. Therefore GST is a wise step in directing Indian economy towards a better stage.

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THE EFFECT OF GST ON SMALL ENTREPRENEURS AND SMALL TRADERS

Nikhita K. Murthy

Abstract

The advent of GST structure into the tax model of India has a far vision of harmonizing and polishing the indirect taxes on goods and services. GST being a new concept to the country, its impact on various sectors or industries of the economy is not well known to the players of the same. The impact of the introduction of GST on the small entrepreneurs and small traders is a widespread effect. Indian market has a large number of small and medium scale industries and traders who will be exposed to reform in the tax structure without ample amount of knowledge. A vague picture about the system is not sufficient and detailed education restricted to their scope is required.

Small entrepreneurs will require mending their systems in order to adapt to the changing structures. The various aspects like sourcing, distribution channels, pricing and profitability margins, cash flows and other system and transaction changes will be required. The government's initiatives towards the restructuring and its importance to the welfare of the small traders are enormous. The shift in the threshold values and split of tax into central and state GST, the principle of destination taxing, the compensating measures and also the preparation of the IT requirements to favor the stakeholders will pay off only with a successful implementation. Whatever said or done, the implementation of the GST will benefit the taxpayers of the nation to a certain extent.

***Key words** –Goods and service tax(GST), Central goods and service tax((CGST), State goods and service tax (SGST),Value added tax(VAT),Central sales tax(CST), sub sum,.*

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Introduction

It is my sense that there is a large consensus that the country should move towards a National Level Goods and Services Tax (GST) that should be shared between the Centre and the states.

- Mr. P. Chidambaram

What is GST?

Definition

It is defined as any tax on the supply of goods or services that will subsume CENVAT, service tax, central excise duty, additional excise duties, excise duties levied under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955, service tax, additional customs duty (countervailing duty or CVD), special additional duty of customs (SAD), central surcharges and cesses, State VAT, State sales tax, entertainment tax not levied by local bodies, luxury tax, taxes on lottery, betting, and gambling, tax on advertisements, State cesses and surcharges related to supply of goods and services and entry tax not levied by local bodies.

GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. GST is a part of proposed tax reforms in India. It has an extensive base that adds fuel to the applicability of an efficient and harmonized consumption tax system. GST has been commonly accepted by world and more than 140 countries have acknowledged the same. Generally the GST ranges between 15%- 20% in most of the countries.

A unified GST is an economically efficient solution even for the multinationals, which have to compete with the companies in unorganized sector, as it simplifies the indirect tax structure to one general rate that can be paid by all companies.

To introduce the GST structure, many of the indirect taxes are to be subsumed in one tax known as GST. The various taxes to be subsumed under GST are:

Table No: 1 GST would replace most indirect taxes currently in place such as:

Central Taxes		State Taxes	
●	Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955]	●	Value Added Tax
●	Service tax	●	Octroi and Entry Tax
●	Additional Customs Duty (CVD)	●	Purchase Tax
●	Special Additional Duty of Customs (SAD)	●	Luxury Tax
●	Central surcharges and cesses	●	Taxes on lottery, betting & gambling
		●	State cesses and surcharges
		●	Entertainment tax (other than the tax levied by the local bodies)

Source: icaitv.com/live/cpe070813/GSTinIndia.pptx

Review of Literature

Dahal,2010 made an attempt to analyze the loopholes or the blockages that are present in the constitution that are hurdles in the way of progressing closer to the projected deadline of implementation of GST in India. He added that the biggest tasks for the lawmakers is to decide and agree upon what are those various taxes, duties, and levies that should be covered by GST due to the characteristic federal set up India has and the administrative, legislative and taxing powers that have been divided among states under the Constitution of India. He quotes the powers of various areas which lie equally in the hands of the union and the states. Some of which are the laws on price control (Entry No. 34), Weights and Measures (Entry No. 33-A), the laws on electricity (Entry No. 38), and Stamp Duties (Entry No. 44), etc. the other part of the paper highlights on the constitutional amendments required for GST implementation which includes a list of indirect taxes that are to be subsumed for the new regime. He concluded that if each state is allowed to tinker with GST tax base and rate, then, there will be every possibility that this noble work will not bring any better situation than that is prevalent today.

Dahal, 2010, in another article said about the acceptability of the change by the states of our country. According to him, though the governments of States and Center acknowledges the needs of modern tax regime which is effective, transparent and assessee friendly, there is still no consensus among the states on its modalities and implementation. He says that more state taxes are to be subsumed in GST to bring the intended objectives into a reality. The other aspect of the paper speaks about the states to be ready to draw conclusions about the rate of tax to be charged on different types of goods and services. If the states succeed in bringing up different tax slabs, then the positive factors of the GST reform will be diluted. Also the issue of states demand for compensation of taxes has kept the bill delayed. Various states that collect taxes such as road tax, octroi in Maharashtra, tax on agricultural produce in Maharashtra and states having low threshold on VAT are expecting a good compensation from the centre. He concluded by saying that the problem of GST can be resolved only through union and state consensus.

Panda and Patel, 2010 gave a brief description of the historical scenario of Indian taxation and its tax structure and also briefed about the need that arose for the change in tax structure from traditional to GST model. Later they move ahead discussing the impact of GST in India in detail. The impact of GST is well explained-sector wise. In the food industry, given the exemption of food from CENVAT and 4% VAT on food item, the GST under a single rate would lead to a doubling of tax burden on food. In the FMCG industry, Implementation of proposed GST and opening of Foreign Direct Investment (F.D.I.) are expected to fuel the growth and raise industry's size from $25 billion in 2008 to $95 Billion by 2018. There have been suggestions for including the rail sector under the GST umbrella to bring about significant tax gains and widen the tax net so as to keep the overall GST rate low. The financial services in India were charged under the service tax unlike many other countries, which will be followed under the proposed GST regime as well. In case of information technology enabled services, if the software is transferred through electronic form, it should be considered as Intellectual Property and regarded as a service. And if the software is transmitted on media or any other tangible property, then it should be treated as goods and subject to G.S.T. They conclude by saying GST serves to be beneficial set up for the Industry and the Consumer, it would lead to increase in revenue to Government.

In 2012, Jain speaks about the rise of the VAT regime in the world. The IMF has played a major role in providing assistance to a number of developing countries in designing and setting-up their indirect tax structures on a VAT model. India's shift towards VAT from the sales tax structure was a smooth one. This positive transformation has not only provoked the factors fuelling the reform toward GST, but also emphasized on the indirect tax landscape of the country, leading to simplification and harmonization of the structure. The introduction of the service tax in 1994 gave way to an unavoidable situation of double taxation on the goods and services in India. However, this was eased with the inception of the CEN-VAT through partial alignment of the regulations. The existing rules are limited in scope as they cover only the duties of excise. The taxes on sale of goods being beyond their coverage and in the absence of a mechanism for availability of credit across different State taxes, the citizens not only end up paying tax on tax but also have to bear its inflationary branches. The intent of merging the major indirect taxes (State level VAT, excise duty and service tax) into a generic 'Goods and Service Tax' (GST) was expressed by the Government in 2006 and international commitments were also made. The Empowered Committee of State Finance Ministers has undertaken to design the GST Model with similar work also undertaken by the Finance Commission independently. To set the foundation for legislative functioning, a Constitutional Amendment Bill has also been introduced in the Parliament. He concluded with necessitating background on the present indirect taxes and also the framework of the 'to be introduced' GST.

According to Shandlya, 2013 there have been criticisms as well as appraisals for the proposed Goods and Services Tax regime. It is considered to be a major improvement over the pre-existing central excise duty at the national level and the sales tax system at the state level. The new tax will be a significant breakthrough and the next step towards a comprehensive indirect tax reform in the country. A single rate would help maintain simplicity and transparency by treating all goods and services as equal without giving special treatment to some 'special' goods and/or services. This will reduce litigation on classification issues instead of classifying the rates as CGST and SGST. Implementation of GST in the Indian framework will lead to commercial benefits which were untouched by the VAT system and would essentially lead to economic development. Hence GST may guide in the possibility of a collective gain for industry, trade, agriculture and common consumers as well as for the Central Government and the State Government.

Statement of Problem

The introduction of a new regime into the tax structure of the Indian subcontinent has a huge impact on the small entrepreneurs and small traders who are a major part of the society of this developing country. This research paper studies the impact of such a change on the small entrepreneurs and small traders of India. The inception of this reform, its benefits and a brief comparison of its advantage over the indirect tax structure helps in understanding the impact it has on small entrepreneurs.

Objectives

- To study the benefits of GST to small traders and entrepreneurs
- To compare the indirect tax structure with the GST structure
- To identify the governments initiative towards bringing harmony
- To highlight the areas which require redressal from the business's side

Scope of the study

This study is restricted to the impact of GST on small entrepreneurs and does not take into consideration the other industries of the economy and its impact on their economic enforcement.

Data collection

This study was mainly restricted to secondary data. As the concept of GST is new to India and it is in the process of implementation, the access to primary data is not feasible.

Limitations of the study

- This study is limited to the availability of data from various dotcoms and previous research studies.
- It does not take into consideration the first hand information from small entrepreneurs and traders in the market.

Discussions

Impact of GST on small entrepreneurs and traders.

Many entrepreneurs across India were eagerly waiting for the announcements about GST during the annual budget. The VAT tax structure is largely considered to be unfair leaving companies and small business owners at the mercy of strict adherence to official formalities and under a constant threat. The present VAT system has made competition unfair as it forces the manufacturers to charge different prices for the same goods across states due to different tax rates. GST will put in place state-of-art tax system replacing the current VAT system allowing companies to grow evenly while helping the government to fill in leakages and loopholes.

Under the proposed GST structure, every company gets a deduction on the taxes already paid by its suppliers. In other words, it is the tax paid on the value addition or the transaction costs incurred in the supply chain. That results in every buyer ensuring that his supplier has paid his part to claim his deductions.

GST would be one of the most significant fiscal reforms of independent India. GST will result in major rationalization and simplification of the consumption tax structure at both Centre and State levels.

The final GST base and rate will result in a significant redistribution of tax across different goods and services. Goods currently subject to both Centre and State taxes should experience a net reduction in tax, with a positive impact on consumer demand.

Simplifying the present system by lowering the rates will reduce the cost of doing business, giving way for a fundamental restructuring of the supply chains. It will affect how the companies operate their business, presenting significant opportunities for long-term revenue and margin improvement.

For instance, under the current tax structure, supply chains are designed to minimize the burden of the Central Sales Tax, with distribution centers located in individual States where the consumers are located. This restricts the firms to take up inter-state trade. They have low optimal level from a strategic and economic perspective. The elimination of the central sales tax will provide an opportunity to optimize supply chains, enabling companies to re-evaluate existing acquirement patterns, and distribution and warehousing arrangements.

GST is also expected to result in a reduction in inventory costs. Dealers would be able to claim credit for the tax paid on their inventories, leading to improved cash flows.

A major disadvantage: To complete a successful implementation of GST is significantly dependent on IT capability – not just at the tax administration level but also at the taxpayer level. Costs and efforts involved in changing the existing IT systems for welcoming GST could be complex, challenging and a lengthy task for the IT department.

Destination principle

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

Benefits of GST to the traders

GST is expected to help build a transparent and corruption-free tax administration. GST will be levied only at the destination point, and not at various points (from manufacturing to retail outlets). With the implementation of GST, exports will be promoted, raising employment and boosting growth.

In the GST system, both central and state taxes will be collected at the point of sale. Both components (the central and state GST) will be charged on the manufacturing cost. This will benefit individuals as prices are likely to come down. Lower prices will lead to more consumption, thereby helping small companies through increase in demand for their goods and services.

Though there are common benefits in certain aspects to every trader from the GST, there are also a few different benefits in other aspects.

The advantages for manufacturers and traders are the following:

- Common market
- One tax
- Distinction between goods and services will be abolished
- Invoicing will become simple
- Common exemptions between Centre and states
- Abolishment of central excise
- Classification difficulties will be met
- Problem of identification is solved

Government's steps to protect the interest of small vendors:

Under the VAT scheme, the threshold of state VAT varies from state to state. Presently it is Rs5 lakhs for a majority of states and a lower sum for north eastern states and special category states on goods. GST that will be introduced will be helpful in achieving uniformity. The state GST threshold to be adopted will be an annual income of Rs10 lakhs on both goods and services for all the states and union territories, providing adequate compensation for certain states especially the states of the north-eastern region and the special category states which had a provision for a lower threshold under the VAT regime.

At the same time, the threshold for central GST for goods will be Rs1.5 crores and a similar slab on sales. This is mainly to protect the interest of small traders who will otherwise be exposed to dual taxes or dual control.

A composition scheme has been contemplated for the small traders under the GST in order to protect the interest of small traders and small scale industries. The compounding scheme will have an upper ceiling or limit on the gross annual turnover and a floor rate of tax with respect to gross annual turnover. The compounding cut off rate is said to be Rs50lakhs of annual turnover and floor rate is said to be 0.5% across the states. This scheme will provide an option for small traders with turnover below the compounding cut off rate to register under the GST.

There will be three categories of Small Enterprises in the GST regime:

1. Those below threshold need not register for the GST
2. Those between the threshold and composition turnovers will have the option to pay a turnover based tax or opt to join the GST regime.
3. Those above threshold limit will need to be within framework of GST

Possible downward changes in the threshold in some States consequent to the introduction of GST may result in obligation being created for some dealers. In this case considerable assistance is desired. In respect of Central GST, the position is slightly more complex. Small scale units manufacturing specified goods are allowed exemptions of excise up to Rs. 1.5 Crores. These units may be required to register for payment of GST, may see this as an additional cost.

The following example illustrates the impact of GST at various levels of the supply chain. Suppose a small entrepreneurs cost of production is Rs.10, 000 and the profit margin he expects is 40 percentage, the calculation for both Without GST and with GST is shown below in Table.2

Table No: 2 Comparison between multiple indirect tax laws and proposed one law

Comprehensive Comparison		
Particulars	Without GST	With GST
	Rs	
Manufacturer to wholesaler		
Cost of production	10000	10000
Add: profit margin	4000	4000
Manufacturer price	14000	14000
Add: excise duty @12%	1680	-
Total value(a)	15680	14000
Add: VAT@12.5%	1960	-
Add: CGST@12%	-	1680
Add: SGST@12%	-	1680
Invoice value	17640	17360
Wholesaler to retailer		
COG to wholesaler(a)	15680	14000
Add: profit margin@10%	1568	1400
Total value(b)	17248	15400
Add: VAT@12.5%	2156	-
Add: CGST@12%	-	1848
Add: SGST@12%	-	1848
Invoice value	19404	19096
Retailer to customer		
COG to retailer(b)	17248	15400
Add: profit margin@10%	1724.80	1540
Total value(c)	18972.80	16940
Add: VAT@12.5%	2371.6	-
Add: CGST@12%	-	2032.8
Add: SGST@12%	-	2032.8
Total price to final customer	21344.40	21005.60
Cost saving to consumer	-	338.8
% saving to consumer(cost saving)	-	1.59
Notes: Input tax credit available to wholesaler is Rs1960 and Rs3360 in case of without GST and with GST respectively		
Likewise, Input tax credit available to retailer is Rs2156 andRs3696 in case of without GST and with GST respectively		
In case, VAT rate is also considered to be 12%, the savings to consumer would be 1.15%		

Note: Cost of Production Fig is a hypothetical figure

Key business impacts of GST

Sourcing	●	Inter-State procurement of goods and services could prove viable
	●	This may open opportunities to consolidate suppliers/vendors.
	●	Additional duty/CVD and Special Additional duty components of customs duty to be replaced.
Distribution	●	Changes in tax system could warrant changes in both procurement and distribution arrangements
	●	Current arrangements for distribution of finished goods may no longer be optimal with the removal of the concept of excise duty on manufacturing
	●	Current network structure and product flows may need review and possible alteration
Pricing and profitability	●	Tax savings resulting from the GST structure would require re pricing of products
	●	Margins or price mark-ups would also need to be re-examined
Cash flow	●	Removal of the concept of excise duty on manufacturing can result in improvement in cash flow and inventory costs as GST would now be paid at the time of sale/supply rather than at the time or removal of goods from the factory.
System changes and transaction management	●	Potential changes to accounting and IT systems in areas of master data, supply chain transactions, system design
	●	Existing open transactions and balances as on the cut-off date need to be migrated out to ensure smooth transition to GST
	●	Changes to supply chain reports (e.g., purchase register, sales register, services register), other tax reports and forms (e.g., invoices, purchase orders) need review
	●	Appropriate measures such as training of employees, compliance under GST, customer education, and tracking of inventory credit are needed to ensure smooth transition to the GST regime

Source: http://www.ey.com/IN/en/Services/Tax/EY-goods-and-services-tax-gst

The key responsibilities and duties of companies to adapt to the changes are:

- Understand key areas of impact of change in the tax structure in their business.
- Prepare for the designing and applying of GST at particular scenarios.
- Continually track policy development regarding GST and update prepared scenarios.
- Identify any areas of adverse impact and prepare contingency measures.

Conclusion

The country has been awaiting the introduction of GST since long and the wait has been a rigorous one. The fact that GST proposes to derive tremendous benefits and opportunities to business has assured continuing enthusiasm for GST. However, the anticipated benefits and opportunities can only be derived from a flawless GST model. If an efficient GST is to be implemented in an effective manner by April 2016, both Centre and State Government need to show their state of readiness in meeting the challenges.

GST as the game changer:

- It will help to create a common Indian market
- It will reduce the descending effect of tax on the goods and services. Its impact on various aspects likes tax structure, tax incidence, tax computation, credit utilization and reporting, which will lead to a complete fixation or modernization of the current indirect tax system.
- GST will have a far-reaching impact on almost all aspects of business operations in a country, including pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems.

Keeping other things aside, the benefit of implementing the new reform will be enjoyable only after a period of time. The difference in the value of GST and indirect taxes though being marginal will be beneficial only after it meets the costs of implementing the structure into the system.

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IMPACT OF GST ON IMPORTS

Vinitha Bhat & Rini Rc

Abstract

Vajpayae Government in 2000 first started the discussion on GST by forming an empowered committee. They thought of implementing GST which has various advantages like end of cascading effect, increase in GDP rate by 2 to 2.5%, increase in exports by 8 to 10%, by eliminating the multiplicity of taxation and also it create unified market. GST will help in setting off for input tax by the importer; it will also subsume major indirect taxes like sales tax, service tax, excise duty and also CVD & SAD. There are three main categories under GST there are SGST, CGST & IGST. IGST includes both SGST & CGST government has estimated IGST rate to 16%. GST implementation is only approved in LokSabha but in RajyaSabha due to lack of majority it still in process of implementation. Only when it is implemented clear picture will be available. The main objective of GST is to maintain common tax rate structure between the states. This article will start with Introduction, History of GST and mainly concentrates on the impact of GST on imports and also how IGST works.

***Key words** – Central Goods & Service Tax (CGST), State Goods & Service Tax(SGST), Integrated Goods & Service Tax(IGST), Central Excise Duty(CED), Central Sales Tax(CST), Value Added Tax(VAT).*

Introduction

Goods and Service Tax is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs 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. This in contrast to current system where taxes are levied separately on goods and services. GST is payable only at the point of final consumption.

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According to Federal structure of India, it is proposed that GST be levied concurrently by the Centre (CGST) and the states (SGST). Both CGST and SGST would be levied on the basis of the destination principle. Imports would be subject to GST, while exports would be zero rated. In the case of interstate transaction within India, the state tax would apply in the state of destination as opposed to that of origin.

Introduction of GST will not affect customs provision because GST model includes both basic custom duty and IGST. But for importing services, service tax will be subsumed by GST and IGST which will be levied. Both CGST and SGST will be levied on import of goods and services into the country. The incidence of tax will follow the destination principle and tax revenue in case of SGDT will accrue to state where the imported goods and services are consumed. Full and complete setoff will be available on GST paid on import of goods and service. But the products like petroleum, liquor and tobacco does not come under preview of GST.

First discussion paper on GST in India was revealed by empowered committee of state finance ministers on 10th November 2009. This discussion paper provides information about dual GST that is to be implemented in India. CGST and SGST are based on destination principle which means tax will be collected only by consuming country. Punjab finance minister Perminder Singh Dhindra suggested that state should allow levying purchase tax on wheat, paddy, sugarcane, cotton and milk under GST too, as the grain producing state would lose revenue from this new scheme.

GST subsumes the following indirect taxes:

Under Central Taxes central excise duty, service tax, additional customs duty, special additional duty and central surcharges and cesses are subsumed.

Under State Taxes value added tax, central sales tax, octroi and entry tax, purchase tax, luxury tax, taxes on lottery, betting and gambling, state cesses and surcharges and entertainment taxes are subsumed.

Benefits

GST eliminates dual tax system, simplify India’s tax structure and create common market across states this will lead to increase India’s tax-to-gross domestic product ratio. The production cost will reduce which leads to fall in tax burden on companies.

Difficulties

It may affect the service sectors like BPOs and KPOs the most because, they were claiming for service tax on input services, but after implementing GST, for claiming SGST they should get registered in every state which leads to high cost and more complexity.

History

In 2000 Vajpayee government started discussion on Goods and Service Tax by setting up an empowered committee, headed by Asin Das Gupta, finance minister of West Bengal. The committee was given the task of designing the GST model and overseeing the IT back-end preparedness for its role out. During this period a major improvement over existing Centre excise duty at national level and sales tax at sales level was done.

Later in 2006, union finance minister P. Chidambaram moved towards GST in his budget and proposed to introduce it by 1st April 2010. However Empowered Committee of State Finance ministers (EC) released its "first discussion paper" on GST in November 2009.

In 2007-08 budget, empowered committee of state finance ministers on P. Chidambaram's request work with central government to prepare a road map for introduction of GST in India. State finance ministers, decided to set up Joint Working Groups on 10th may 2007 with the advice to the union finance ministers and minister's secretary of empowered committee.

In 2008 EC report to the titled "a model and road map for GST in India" containing broad recommended above the structure and design of GST.

In 2009 first discussion paper was released based on inputs from GOI and state with objective of generating a debate and obtaining inputs from all stake holders.

Statement of Problem

GST has positive and negative impact on imports.

Positive impacts are credit of import duties will make imports cheaper for retailer's thus final consumers will be benefited. Entry tax is a cost in most cases, along with additional tax burden. With GST entry tax and other indirect taxes will be eliminated.

Negative impacts are, at present stock transfers are not taxed but it will be taxed by the implementation of GST.

Review of Literature

According to **Halkhandi** (2015), GST‘s implementation will have positive impact because the total tax will be paid on final consumptions and only country which is importing will pay the tax which called destination based VAT. Main objective of implementing GST is to remove barriers for moment of goods from one country to another.

According to **Shekar** (2015), implementation of GST will emerge as tax of the future. In the competitive world income from direct taxes has been reduced and hence implementation of GST can increase the country’s revenue through combining all indirect taxes in one single head.

According to **Lath** (2015), implementation of GST will make a major change. Supporting his statement, major changes can be single and unified market place, reduction in operational costs, major flow of credit and reduction in litigation. And there will be different impact on manufacturers, traders; service providers all together, like manufacturer need not pay tax on manufacturing and only consuming country would pay tax.

According to **Jain**, GST as it is claimed to be a destination based tax, so tax will be charged only on supply on goods and services. And also set off will be given by Centre and state separately. Centre will provide tax credit only on Centre GST (CGST) and state will provide tax credit set off only state GST (SGST). This will eliminate over utilization of tax credit between Centre and state.

Objectives

1. To study the impact of GST on imports
2. To find how IGST works on imports.
3. To find whether the implementation of GST has positive or negative impact on imports in the country.

Methodology- Data Collection

Secondary data

The information for the study is collected through newspapers and various sources.

Limitations

- Time wasn't sufficient for the research
- As GST is not yet implemented our study is based on previous research.

Results and Discussions

Impact of GST on imports

Import in India attracts VAT or CGST at the time of entry into the country. The tax is generally applied on the value of goods declared for custom purpose, including the amount of customs duty. Previously imports includes basic customs duty and along with that SAD and CVD of 4%. But now SAD and CVD are subsumed under GST.

As there are no well-established presidents for the application of subnational taxes to imports, it is difficult to analysis the effect of GST on imports.

The constitution one hundred and twenty second amendments 2014 proposes to treat supply of goods and services into territory of India as supplies in course of interstate trade or commerce.

Under present tax rate structure in INDIA imported goods are taxed with custom duty which includes BCD, CVD and SAD. Service is imported with service tax.

Excise duty-12%

Service tax-12.36%

Sales tax/VAT-5%, 12.5% and 20%

Customs duty-24.72%

After implementation of GST, tax rates in INDIA are expected to be 12% to 20% for the 1st year, 12% to 18% for 2nd year and 16% for 3rd year and onward.

Table No: 1 Rate structure of GST

Goods/Services	Levy	Rate in 1st year	Rate in 2nd year	Rate in 3rd year
Goods Lower Rate	CGST	6%	6%	8%
	SGST	6%	6%	8%
Goods Standard Rate	CGST	10%	9%	8%
	SGST	10%	9%	8%
Services	CGST	8%	8%	8%
	SGST	8%	8%	8%

Source: background material on GST (www.icai.org)

Table No: 2 Table showing what tax is applicable on purchases

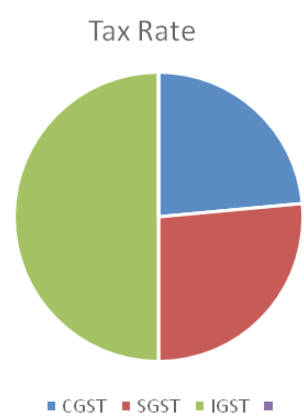
Type of purchase	Local	Interstate	Imported
GST incidence on purchase (taxes payable)	CGST SGST	IGST	BCD CGST SGST
Credit entitled on (with respect to taxes paid)	CGST SGST	IGST	CGST SGST

Source: background material on GST (www.icai.org)

How IGST works on imports

GST is based on destination principle and hence it should be collected only by consuming country. While importing goods IGST includes both CGST and SGST. It works as following example;

If country A wants to import leather of rupees 100 from country B and sell the same for rupees 120 locally.



Assume

CGST rate is 8 %

SGST rate is 9 %

IGST rate is 17 %

In the above example, assumed that rates for CGST, SGSTand IGST are 8%, 9% and 17% respectively.

Therefore when country A import the leather he has to pay the IGST of 17% on 100 that amounts to 17, and when sells the same locally he has to pay SGST AND CGST OF 9% and 8% on 120 which amounts to (10.8+9.6) that is 20.4. But now he need not pay whole of 20.4, he can get input credit of 17, and now he has to pay remaining 3.4 to the state government.

State government should get total of rupee 9 as SGST, but now he got only 3.4 from 'A' and remaining 5.6 will be credited by central government to state.

Therefore from the above example we can conclude the main purpose of introducing GST that is, tax should be paid on basis of destination principle. Here state tax will be levied to state government in a very smoother way.

Conclusion

It has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for modernization of tax administration -make it simpler and more transparent – and significant enhancement in voluntary compliance. We assume that implementation of GST will increase the GDP rate from 2%-2.5% due to elimination of dual cascading effect. This assumption is made because the Canadian experience is suggestive of the potential benefits to the Indian economy. The GST in Canada replaced the federal manufacturers' sales tax which was then levied at the rate of 13% and was similar in design and structure as the CENVAT in India. It is estimated that this replacement resulted in an increase in potential GDP by 1.4%, consisting of 0.9% increase in national income from higher factor productivity and 0.5% increase from a larger capital stock.

On levying IGST the country can eliminate double taxation and also it is based on destination principle where only final consumer will pay the tax. Therefore, when the country import the goods it can earn more revenue by collection the tax and also consumer will get input tax credit (set off).

At present, government of India is not able to meet the expected tax collection due to lack of transparency in the present tax structure. Therefore according to our results implementation of GST is very much required and GST rate should be fixed in such a way that they meet their target.

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GST: TRANSITION IN THE INDIAN PHARMA SECTOR

Anola Maria DSouza & Sophia Maria Albina K.

Abstract

The cascading effect of tax on tax which prevailed prior to the introduction of VAT was reconstructed and revised on 1st April 2005. It is over a decade past the introduction of VAT which is a multi-stage tax system levied at each stage of production and distribution process. It is now realized that there is a strong necessity to amend the existing tax rates and make it uncomplicated and dynamic for the entire economy. As the implementation of GST in India is just around the corner, every industry and the nation as a whole, is looking at how this will influence their present tax obligations. This research paper presents the effect of GST, the big bang fiscal reform of India, on the Pharmaceutical industry. The focus has also been set to identify and analyze the "now and later" tax structure and its impact on the business of Indian Pharmaceutical industry.

Key words – *Goods and Service Tax (GST), Indian Pharmaceutical Industry, Research Paper, Transition in the Pharma Sector, Value Added Tax (VAT), Central and State Government.*

Introduction

The Indian pharmaceutical industry, with an estimated turnover of 450 billion (INR) is the third largest in terms of volume and thirteenth largest in terms of value, according to the department of PHARMA, ministry of chemicals and fertilizers. Indian Pharma is also a major source of revenue for India.

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The Bio-Pharma under the pharmaceutical industry generates nearly 60% of total revenue (Wikipedia). Gujarat, Maharashtra, Hyderabad and Ahmedabad are the major Pharmaceutical hubs of India. The various categories of Indian Pharmaceutical industry are- Bulk Drugs, Biotechnology, Bio-Pharma, Biological products, Herbal products, Homeopathy, Surgical and Clinical research.

The Pharma industry of India is expected to grow at 20% Compound Annual Growth Rate (CAGR) over the next five years. This is presumed because of the certain strengths that exist

in the industry such as- cost effectiveness, strong manufacturing base, low cost of innovation[1] and manufacturing and availability of high quality skilled workforce.

Currently, the pharmaceutical sector in India faces a multistage taxation system. Different taxes such as- customs duty, central excise duty on manufacture, CST/VAT on sale, and service tax on provision of services adds burden to the operating margins of Pharma industry. Further, the loss of tax credit on services such as logistics and patents impart inadequacies to the Pharma business. Also, multistage taxation increases compliance cost for the pharmaceuticals as the company is liable to file multiple returns on monthly basis to different authorities.

To eliminate this problem, the finance minister has proposed another system of tax called as Goods and Services Tax (GST).*GST may be defined as a dual taxation on goods and services, levied at each point of sale or provision of service, in which, at the time of sale, the seller may claim the input credit of tax which he has already paid while purchasing the goods* (Manindra).

Review of Literature

Value added tax was first introduced by Maurice Laure, a French economist, in 1954. The tax was designed such that the burden is borne by the final consumer. In the Indian tax Regime, VAT was brought in to the picture in 2005. Since VAT can be applied on goods as well as services it has also been termed as goods and services tax (GST).A number of studies has been performed to examine the impact of implementing the GST. Most of these studies were on understanding the impact on the various factors affecting the economy.

- **Cullis & Jones (1992)** stated that the increase awareness and knowledge on a new tax initiative is essential to gain public acceptance and confidence, particularly in tax situation. Tax involves public expenditure. New tax reform creates uncertainty of future expenditure.
- Value Added Tax and Its Impact on Pharmaceutical Products (A Perception Study Among Staff At Higher Secondary Schools in Madurai District) - **Journal of Contemporary Research in Management, January (2008)** states that, A long felt necessary to cope with global markets has compelled India to adopt this inevitable system.

- **Garish Garg (2014)** Studied **"Basic Concepts and Features of Good and Service Tax in India",** and found that GST is the most logical steps towards the comprehensive indirect tax reform in our country since independence. GST will create a single, unified Indian market to make the economy stronger.
- **Dr.R.Vasanthagopal (2011)** Studied **"GST in India: A Big Leap in the Indirect Taxation System"**, and found that the positive impacts are dependent on a neutral and rational design of the GST balancing the conflicting interests of various stakeholders, full political commitment for a fundamental tax reform with a constitutional amendment, the switchover to a flawless GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change.
- **The Council of Applied Economic Research** states that, GST is expected to increase economic growth by between 0.9% and 1.7%. Exports are expected to increase by between 3.2% and 6.3% while imports will likely rise from 2.4 - 4.7%.

Statement of the Problem

The proposed Goods and Services Tax (GST) has called for many arguments from numerous interested groups on how it would influence the various sectors of the economy. Pharmaceutical industry, being one of the fast growing and revenue generating industries of the country includes all aspects of business from manufacture, processing, distribution and service. Consequently the change in taxation rates will have an effect on the growth of the industry.

This paper concentrates on the differences that will be experienced by the Indian Pharmaceutical industries before and after the implementation of GST.

Objectives of the Study

- To portray the scenario under the VAT system.
- To obtain a comprehensive overview on the impact of GST on the Indian Pharmaceutical Industry.
- To ascertain the merits and demerits of the proposed system in the Pharmaceutical industry.

Research Methodology

This paper is an attempt of exploratory research, based on facts and findings which attempts to analyze and explain the scenario, while providing additional information about the topic.

Since GST has not yet been implemented in India and due to the non availability of primary data, secondary data has been considered for this study which is taken from various sources such as journals, magazines, articles, government and media reports.

Limitations of the Study

- A detailed study could not be undertaken because of time constraint.
- The information regarding the topic lacked in clarity.
- The study is based only up to the level of awareness.
- GST reports do not give us a clear picture of its impact on the FDI in the Indian Pharma industry.

Results and Discussion

Indirect tax is where one can shift his tax liability on someone else. Value Added Tax (VAT) is one form of indirect taxation in India. It comprises of State Level VAT (SLVAT) and Central VAT (CENVAT). In case of VAT, the tax is levied on the value addition and not on the input or output of a product. Even if the input of products is taxed, there is an input credit system available which will return the tax paid on inputs by the manufacturers. There is no uniform system of VAT rates, it varies among states and the products will be charged according to the SLVAT. But if a service is to be charged, both SLVAT and well as CENVAT will be considered. Service tax is generally levied by the Central government and Interstate trade is charged as Central Sales Tax (CST) at 2%.

Indian Pharma industry is currently following this system of taxation.

Some of the advantages it has attained over these years are-

- VAT is not charged on the imports of goods.
- The Pharma sector enjoys tax holidays in a few regions provisioned by the government for regional development. The accessibility and logistic cost to these regions is high, but is overridden by the tax benefits.

There are certain drawbacks in VAT system for the Pharma industry-

- It is a cost to Pharma manufacturers while procuring raw materials from outside their states on inter-state basis. This is because of the fact that the CST paid on purchases cannot be set-off against the VAT liability of manufacturers or dealers.
- Another impact would be a review of the present warehousing strategies followed by the Pharma industry. The common practice of most Pharma manufacturers is that they maintain warehouses in different states to support movement of goods from one warehouse to another so as to save on the CST. This is directed to the prosperity of Pharma sector only in those states and is not evenly dispersed across the country.
- Only Central taxes paid by the exporters are reimbursed and taxes levied by states are not reimbursed. This adds to their cost of production and discourages exports.

On the other hand, if GST is implemented, it is more likely to sustain the pharmacy sector.

The operations or processing of the pharmacy sector would be more consistent, uniform and rational with the other industries. Pharma industry also enjoys low cost of production due to economies of scale, but the levy of multiple taxes, loss of credit of tax paid, compliance and litigation cost allied with the present tax structure tend to raise prices which eventually result in causing hardship to the Pharma industry.

GST is as well levied on the import of goods and services. While this is indeed serving the purpose of promoting the economy of the country, one element that is being ignored is that most of the capital goods required to manufacture the Pharmacy items are being imported by Indian manufacturers. Although there are dialogues that there will be an input credit for the goods imported for the purpose of export, it will again be a burden for manufacturers who are financially incapable.

In the case of exports, the industry is exporting more than half of its total production, which is estimated to be more than 20 billion dollars. The major destination for export is the USA, UK, Germany, South Africa and Russia.

Under the VAT system, the central government had introduced Export Promotion Capital Goods (EPCG) Scheme and any exporter licensed with EPCG scheme is eligible for exemption of custom duties. The question is, will the EPCG scheme continue to exist under GST system? As this is an important principle for the export of chemicals and pharmaceuticals.

Merits of GST on the Pharmaceutical industry

- The GST will influence warehousing strategy of pharmaceuticals. Under GST, the transactions between two dealers at an inter-state level will extent to stock transfer or branch transfer. The country would be considered one common market and therefore, making inter-state transactions tax neutral. Currently, due to CST liability, Pharma manufacturers are forced to maintain warehouses in all states to avail exemption of CST.
- Currently, the tax credit can be obtained only on the raw materials or inputs procured. But GST is proposed to include services also under the concept of tax credit. This will motivate the Pharma manufacturers and suppliers to discover better logistics and transportation alternatives.
- The availability of excise duty holiday for a period of 10 years in selected states under VAT has resulted in many Pharma companies shifting their manufacturing base to these states. This has created a biased advancement in these states neglecting the other potential states. But with the implementation of GST, there will be unified tax rate and development of all states.

Limitations of GST on the Pharmaceutical industry

- The foremost limitation of GST is that it lacks in clarity of the rates and incentives to the manufacturers.
- Further, Increasing government pressures with harsh price controls and taxes will restraint the growth of Pharmaceutical industry.
- On an average, out of every 10,000 molecules been developed, only one or two are likely to reach the market. This indicates that there is lot of costs and risks involved in the manufacture of medicinal products. So, if GST tax rates are too high, there are possible chances that the market will not flourish.
- The government has recently permitted 100% Foreign Direct Investment (FDI) in the Pharma industry. But there is no clarity about GST's impact on the FDI. This may perhaps reduce the FDI in Indian Pharma industry.
- Most of the Pharma companies are outsourcing their business to different states where it is excise free, but after GST is introduced, they will have to return to Gujarat which probably would be the only state which is excise free.
- Lastly, on generic terms, because of the flat rate which will be imposed as a result of GST, the rich get richer and poor get poorer.

Thus, we get an overview of what the system of GST is likely to be and upon its implication, what opportunities and challenges the Indian Pharmacy industry would come across, because of the transition in the tax rates.

Conclusion

Implementation of The Goods and Services Tax will play a major role in the tax regime of the country. It is expected to bring about competence and simplicity in the indirect tax reforms in India. Further, it will also support an unbiased tax structure that is impartial irrespective of any business processes or physical location. Though the exact details are still vague, the structure has been approximately laid down for all to see.

When it comes to the Pharmaceutical industry, it should start gearing up for the subsequent GST and identify the areas, which would require consideration during the implementation of GST and it's after effects. The industry will have to re-assess the existing Enterprise Resource Planning (ERP)/accounting system and make appropriate changes to put into effect the change in tax rate, format of invoice and so on for accurate and timely tracking, computation and payment of tax obligations, which seems time consuming and would probably result in turmoil in the initial stages. Further, the industry should identify the products, which presently enjoy exemption from payment of Central Excise/VAT so as to enjoy the same exemption benefit in the GST regime. This is because, the exemption of tax on certain products is one of the reasons behind the prosperity of the Pharma industry and any change in this pattern would affect the industry severely. The post GST era should trigger to further motivate the Indian Pharma sector and play a crucial role in its sustained growth.

Pharma Companies are required to assess the impact of GST on their businesses and functions and develop a suitable sketch for the future.

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A COMPARATIVE ANALYSIS OF PRESENT INDIRECT TAX SYSTEM AND GST IN INDIA

Sonam dhondup, Varsha V

Abstract

Tax is major source of revenue to government in India. Since from past two decades India tax system had a major reform in indirect tax. Goods and service tax is one of the biggest reform in India. The present scheme of indirect taxation has various short coming like the way it taxes input and output, bringing service under tax net which is not possible under VAT system. So in order to overcome the shortcoming of present taxation system, Goods and service tax in India is introduced. It Focus to improve the existing VAT system and tax system of India. Goods and service tax is value added tax to be implemented in India. It aim is to overcome the shortcoming of present tax system is to eliminate the cascading impact of taxes on production and distribution cost of goods and service. In this article, we have given introduction of tax and specifically focus on various type of indirect tax and also various shortcoming of present indirect tax system. Brief overview about goods and service tax (GST) and how it will overcome the present tax shortcoming, the tax that subsumed under GST. We have compared GST with present taxation system.

Keywords: *Goods and Service tax (GST), Value added tax (VAT).*

Introduction

History of GST

The present indirect tax system (VAT) in our country was introduced in the year 2005 and 2006 in almost all the states. India has a well-developed tax structure with clear demonstration of authority between central and state governments and local bodies I.e. central government levy taxes on incomes except tax on agricultural income, which the state government can levy, customs duties, central exercise and services tax.

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State government levy's taxes such as value- added tax (vat), stamp duty, state exercise, land revenue and professional taxes. Where local bodies are empowered to levy tax on properties, octroi and for utilities like water supply, drainages etc. due to the burden caused from the present tax system (tax on tax), the concept of GST was introduced.

The reference to Goods and services tax in India was made in the year 2006 in the union budget by our former finance minister Mr. P Chidambaram. Which was to be actually implemented from 1st April 2010. But due to some reasons in the upper house, it was postponed from year to year. It is believed that GST will be implemented from the year 2016.

The term GST is known as goods and service tax bill or GST bill, officially known as the constitution (one hundred and twenty- second amendment) bill, 2014.

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and service throughout India. This system is more feasible than the present tax system as it indicates setoff of tax rather than tax on tax system. It replaces the taxes lived by the central and state government and provides for uniform tax structure throughout the country.

The GST at the central and at the state level will give more relief to industry, trade, agriculture and consumers through a more comprehensive and wider coverage of input tax set-off and service tax set-off.

A fee or a charge levied by a government on a product, income or any activity that generates revenue. Tax can be further classified as direct tax and indirect tax.

Direct tax

It is the tax levied directly on personal or corporate income this tax cannot be passed or shared on to other parties.

Types of direct tax are:

1. Income tax
2. Transfer tax
3. Entitlement tax
4. Property tax
5. Capital gain tax

Indirect tax

Tax levied on the price of a good or service is called indirect tax these taxes are played on almost daily basic products and services.

How does indirect tax works:

Most consumable products are featured by indirect tax that is collected by the merchants and then paid to the government, and hence it is a indirect route of collecting tax. When it comes to consumers, they don't think about the extra money they pay when purchasing goods and unaware that the money represents an indirect form of taxation.

Literature Review

Girish garg, (2014) studied **"The concept and features of goods and services tax in India"**, and found that GST is the compressive indirect tax reform in our country since independence. GST will create a single ,unified Indian market to make the economy stronger under the goods and services tax scheme, the taxation burden will be divided equally between manufacturing and services through a lower tax rate by increasing the tax base and minimizing exemptions.

Syed mohd ali taqvi, (2013) studied "**challenges and oppurnities of goods and services in India** "found that GST would eliminate the cascading impact of taxes on production and distribution of cost of goods and services where it would eliminate the concept of tax on tax and brings a new concept of tax system of setting off of tax which would in turn enhance GDP of the economy and reduce the transaction cost and unnecessary wastage, in turn reduce the corruption.

Objectives

1. The study the present scheme of indirect taxation and its shortcoming
2. To highlight the provision of new Act GST
3. To do a comparative analysis of present tax system and GST

Methodology

Over research work is done on base of secondary data collection for the study include the present VAT system provision of GST.

Results and Discussion

Overview of present tax system

In the present taxation scheme of India, taxes are levied by the central and state government. The local authority such as municipality takes care of minor tax. The computation, levy and collection of tax are done by the department of revenue of finance minister (Wikipedia)

On 1st April 2005, VAT was implemented in almost all state but some state didn't implement VAT and still practice the old sale tax system. Central governments impose both direct and indirect tax and they are some tax which they cannot levy so those are taken responsibility by the state government.

Central government levy income tax, custom duties, service tax, and central excise. State government can levy value added tax, stamp duty and land revenue and state excise. Local body is responsible for levy tax on water, property and shop etc.
(currentaffairsindia, 2015)

Comment

The Present tax system is convenient to both tax payer and state. As tax is collected at the time of purchase and sale, collection of tax is easy. As tax are already added with price of commodity it become difficult to evade tax. Also poor people are exempted from direct tax.

The indirect tax is regressive in nature and it also lead to increase in the price of commodity. When raw material is tax by government, it will increase the cost of production and price of commodity which will discourage the industry and also the customer buying behavior.

Short coming of present tax system in India

Presently India follows a dual tax system for taxation of goods and services. This tax system is described by central taxes and state taxes, which is further described as exercise duty, service tax, vat and customs duty. India follows a vat mechanism which was introduced in the year 2005 which is working on input tax credit principle but this is limited to intra state transaction. However this problem is not for service sector, as service sector, as the service tax is levied by central government.

- The first main drawback of the indirect tax system is the burden on economically backward people. Indirect tax is generally imposed on consumption of goods. They are unfair in the sense that poor people have to pay as much as rich people.
- The imposition of indirect tax on a commodity increase price though the cost of production is less. It has regressive in nature.
- The administrative cost involved in collecting the tax is heavy as they have to be collected from large number of persons.
- It causes uncertainty – the revenue from indirect tax cannot be estimated accurately. An indirect tax leads to rise in the price of the commodity. Which in turn result in fall of

demand and thus it is difficult to know the extent to which the demand of the commodity has fallen.

- It has cascading effect that is there are different tax levies on supply chain till it reach the customer.

Overview of GST

The GST is an indirect comprehensive tax levied on manufacture, sale and consumption of goods and services at a national level. The main objective is the coverage of all indirect taxes in to a single tax replacing multiple taxes levied, overcoming limitations of current indirect taxstructure and creating efficiency in tax administration. France was the first country to introduce this system in the year 1954. However, out of 196 countries, 140 countries follow the system of GST.

GST is collected on value added goods and services at each stage of purchase or sale in the supply chain i.e. GST is paid on the procurement of goods and service can be set off against that payable on the supply of goods or services. But the consumer being the last person in the supply chain has to bear this tax and hence it is like a last point retail tax. It is a setoff benefit. Many countries have a unified GST system. However countries like Brazil and Canada follow a dual system where GST is levied by both federal and state or provincial government.

In India a dual GST is being proposed where in a central goods and services tax (CGST) and a state goods and services tax (SGST) will be levied on the taxable value of transaction.

Three prime model of GST

Central GST State GST Dual GST

- GST to be levied by center
- GST to be levied by state
- GST to be levied by center and state concurrently

  (Sources –www.gstindia.com)

How will GST overcome present tax shortcoming-

1. End of cascading effect- If GST is implemented in India, I will overcome the shortcoming of present taxation scheme which is cascading effect. It will bring to an end of the cascading effects. This will contribute an immense benefit to the business and commerce.

2. Eliminate the multiplicity of taxation -

   Industry, trade and agriculture-GST rate of 20 percent is suggested by a parliamentary committee, which in turn would benefit the industry and will also not impact on the consumers. The raja Sabha select committee has suggested that the goods and services tax rate should not exceed beyond 20 percent as higher rates could increase inflation and erode the confidence of consumers in a new indirect tax regime which is to be implemented from 16 April 2016.

   So GST will give more relief to industries, trade and agriculture through a more comprehensive and wider coverage of input tax set off by subsuming of several central and state taxes in the GST.

3. Exporters-the subsuming of major central and state taxes in GST would provide a comprehensive set off of input goods and services and phasing out of central sales tax (cst) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports

4. Common consumers- in GST taxes for both center and state will be collected at the point of sale. So the customer will be benefit as price will be come down the customer will be paying less to its consumption and it will reduce the average tax burdens on the consumers.

5. Single tax –Due to GST, the manufacturer and trader will be benefit such as one tax as all the tax will subsume and will not need to pay all the tax, common exemption between center and state. This will give a more opportunity and time for manufacturer to pay more focus on business rather than worrying about other taxation.

6. Uniformity of tax rate across the states

How does GST works?

GST is a continuous chain of setoff benefit from producer's point and services provider's point up to the retailer's level. It is basically a value addition at each stage and a supplier at each stage is permitted to set off through a tax credit mechanism, the GST paid on purchase of goods and services is available for setoff on the GST to be paid on the supply of goods and services. The final consumers will thus bear only the GST charged by the last dealer in the supply chain with set off benefit at all precious stages.

GST is proposed to merge service tax, vat and customs exercise into one tax i.e. GST. Since the current taxation frame work allows limited inter-levy credits between central exercise duty and service tax. However no cross credits are availablein respect of other taxes specifically vat, central service tax, entry tax. Introduction of GST would allow the interlay credits and thus rationalize tax content in product price, enhance ability of assessed to compete globally.

Taxes that may or may not be subsumed

There are few other indirect taxes that may or may not be subsumed under the GST regime as there is no consensus among States and Centre & States –

- Purchase tax
- Stamp Duty
- Vehicle Tax
- Electricity Duty
- Other Entry taxes and Octroi

What will be out of GST?

- Levies on petroleum products
- Levies on alcoholic products
- Taxes on lottery and betting
- Basic customs duty and safeguard duties on import of goods into India
- Entry taxes levied by municipalities or panchayats
- Entertainment and Luxury taxes
- Electricity duties/ taxes
- Stamp duties on immovable properties
- Taxes on vehicles

Comparative analysis of present tax system and GST.

1. The present structure of indirect tax structure is very complex in India. As it is demonstrated by both the authorities central and state. There are so many types of tax levied by central and state government on goods and services.

   Example-

   - Entertainment tax is paid for watching a movie or any other entertainment
   - Value added tax (VAT) on purchase or production of goods.

- Other taxes like excise duties, import duties, luxury tax, central sales tax, service tax and so.
- There are certain taxes were both the central and state government take an active part in determining the tax rates.

2. Goods and services subject to tax: As we know the present tax system does not have much impact on the service firms i.e. the rate is less when compared to the goods tax or any other form of tax).

   New act, “GST” as the word indicates goods and service act operates on a negative concept – all goods and services are subject to GST b unless specifically exempted.

3. The entire Indian market will be unified market with the implementation of GST. A specific standard rate will be implemented and followed throughout India.
4. It is more transparency and better compliance: The present indirect tax system does not provide transparency and compliance as consumers are not aware of the percentage of tax which the local, state and central government collects. By the implementation of GST a common tax rate is implemented and also provides a clear view of tax rate.
5. Corruption: Number of departments will reduce which in turn may lead to less corruption.

Conclusion

Introduction of GST in India needs to be well-planned and requires a sufficient long period to familiarize the public with its working. GST needs advance preparation though it is to be implemented in 2016.” GST is needed not only to raise more revenue for the government, but also to diversify its source of income”. GST was introduced to replace and rectify the shortcoming of current taxation scheme. As GST facilitates set off of tax rather than tax on tax, which would benefit the economy at large.

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TITLE: IMPLEMENTATION OF GST IN INDIA AND ITS IMPACT ON SME SECTOR

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Abstract

GST- A broad based and single comprehensive tax system was most awaited bill, which passes on 6th May 2015. It was debated that, GST will remove the cascading effect of tax by giving input tax credit to SMEs and lead to economic integration[1]. With broad debate on GST, country's most important sector, SME, also feel the heat of GST. SMEs are the model of socio-economic policies of Government of India. India has second largest number of SMEs in the world next to china, and they are the next best sector which provides largest employment after agriculture in the economy. It is been argued that GST will enhance the SMEs efficiency. Thus, it has been a focus of study about the impact of GST on SME sector. In this paper, concentrates on the GST model, to learn the basics of GST implementation in India and extend the topic to the SME sector's growth.

Keywords: *GST model, efficiency, input tax credit, SMEs.*

Introduction

GST Bill has been described as a reform measure of unparalleled importance in independent India[2]. A much delayed bill, passed on 6th May 2015, took its birth in 2000 by Vajpayee Government. Since then GST has been in the news for numerous reasons. It is expected that GST will transform the India's indirect tax system by simplifying it at both centre and state level. A very important point to be noted here is, there would be 'no tax on tax'. On the destination principle, the tax is at the last stage. The Small and medium enterprises (SMEs) are the major sector which is promoting Indian economic growth by contributing 40% Indian workforce and

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[1] Arun Jaitley

[2] Arun Jaitley

nearly 17% to the GDP growth rate. Thus, it is inevitable to study the major change in the tax system which is going to occur in 2016.

To begin the discussions let us know the meaning and basic model of GST. Goods and Service Tax –GST is a tax levied on manufacture, sale and consumption of goods and services, with comprehensive and continuous chain of set-off benefits from the producer's point and service provider's point up to the retailer's level. GST is basically a well designed destination-based value added tax.

Literature Review

In the Indian context, SMEs are those engaging up to 4 people in most cases family members or employing capital amounting up to 5 lakhs. The tax structure in India is well organized and developed in a systematized manner. In the paper, we talk about the tax structure before VAT and after VAT regime. When we analyze the tax structure of India we have come across the cascading effect in the tax and certain conflicts between the tax system of central and state government. GST is being introduced in India for the first time. It is Goods and Service Tax, which is levied on manufacturing, sales of goods and services in India.

Statement of the Problem

As it is stated, the Indian tax structure is little ambiguous in nature. Thus, in this paper efforts are made to analyze the tax structure and the relevance of GST in the present tax structure. The GST is going to replace VAT and it will make the single model tax and it also widens the tax base of the Indian tax. In this paper, I have tried to analyze the effect of GST on small business house (SMEs).

Objectives of Study

a. The present paper study GST on the basis on following objectives
b. To understand the present structure of tax
c. To study the loophole in the VAT
d. To know the implementing model of GST
e. To understand the GST's impact on the SME sector of India
f. Analysis of SMEs future prospects with GST

Scope of the Study

The paper studies the background of GST and its implementation. Then it applies the GST on the SME sector of the economy. The paper does the secondary data work and considered many articles and conference outcomes.

Methodology

Secondary sources of data are used. Data published by various institutions such as Government of India, World Bank, Consultative Group to Assist the Poor (CGAP), Reserve Bank of India (RBI), etc are used for the purpose of the present paper.

The paper is organized into 9 parts. Following this introduction, we understand the present tax structure by basding the knowledge before VAT and after VAT. It then takes up the theoretical and conceptual issues surrounding the GST on SME development. Part three present understaning of the Input credit mechanishm and the benefits to SME sector as a whole.

Understanding present tax structure

To understand the impact of GST on the SMEs, it is relevant to understand the prevalent tax structure in India. Task force on 'Implementation of Fiscal Responsibility and Budget Management Act, 2003,' commented as, 'high import tariffs, excises and turnover tax on domestic goods and series have enormous cascading effects leading to a distorted structure of production, consumption and exports. This problem can be effectively addressed by shifting the tax burden from production and trade to final consumption and from savings to consumption. The existing tax system introduced innumerable distortions resulting in inefficient resources allocation and adversely impacting GDP growth. It also provides incentives to firms to engage in political lobbying for exemptions and favorable modifications in the tax schedule. The Indian consumer is known to be remarkably sensitive to apparently small changes in relative prices. The goal of a rational tax system is to empower households to engage in undistorted decision making, driven by their own needs and preferences.' It is observed that, the tax structure prior to VAT and CENVAT was irrational and regressive. The tax system at time was not providing a level playing field to all the market players.

VAT: How successful

The concept of VAT was first introduced in India in Indirect taxes in the year 1986 for selected number of commodities in terms of MODVAT. In 2002-03, all commodities were included in terms of CENVAT. During 2004-05, service tax were also added to CENVAT and by this time states also started implementing VAT for sale of goods in the state. However at present there is no seamless transfer of goods and service in the country and tax is not a mere pass through during production and distribution and is added as cost in many cases during the intermediate stage.

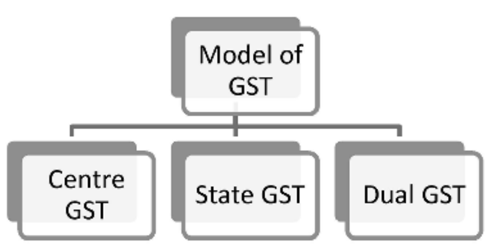
Currently goods are taxed under VAT regime implemented by state government and services are taxed under service tax regime implemented by central government. As VAT is implemented by state government, each state has different VAT rates, VAT regulation and Vat procedures leading to complications. Further, in addition to VAT and Service Tax there are various other tax regulations that business must comply with like Central Sales Tax (CST), additional Custom Duty, Purchase Tax, Luxury Tax etc. Despite the success with VAT, there are still certain short comings in structure in the levy of VAT both at central and state level.

Though VAT is best form of consumption tax which is adopted by 130 countries and it contributes to 1/5th of world's tax revenue, there are certain loopholes in this structure. The distributional and equity effects are on debate. The shortcomings in CENVAT of Government of India lies in non-inclusion of several tax n the overall framework of CENVAT such as VAT, ACD, and Surcharges etc. The present state VAT scheme, CENVAT load on the goods remains included in the value of goods to be taxed under state VAT and contributing to that extent on cascading effect on account of CENVAT element. Further, any commodity, in general, is produced on the basis of physical input as well as service, and there should be integration of VAT on goods with tax on service at the state level as well, at the same time there should be removal of cascading effect of service tax.

It is also viewed that VAT is regressive tax and therefore a strong reason to introduce measure which will protect the poor when implanting GST. By removing cascading effect, layers of taxes and simplifying structure, the GST would encourage compliance, which is also expected to widen the tax base.

Understanding GST- GST model

Goods and Service Tax creates an audit-trail of value chain across the income and production chain. Introduction of GST make the Indian products competitive in domestic and international market. GST regime intends to subsume most indirect taxed under a single taxation regime. GST is a value added tax levied across goods and series. This is expected to help broaden the tax base, increase tax compliance and reduce economic distortions caused by inter-state variations in taxes.[3] The main idea is no good and service is exempt, and there is no differentiation between a good or service, whether as an input or as a finished product. The simple model of GST can be summed in the following diagram:



[3] The constitution(122nd Amendment) Bill, 2015

India has adopted dual GST, which can be understand both centre and state GST with IGST(Integrated GST) for inter-state trade of goods and services The GST includes both centre and state taxes which are listed in the following table

GST	
Centre Taxes	**State Taxes**
Service Tax	VAT
Central Excise Duty	CST
Additional Custom Duty	State cess and surcharges
Special Additional Duty of Customs	Octroi and entry tax
Central Cess and surcharges	Purchase tax
	Luxury tax
	Lottery and gambling tax
	Entertainment Tax

Under GST, tax pain on inputs is deducted from the tax payable on the output produced. This input credit set off operates through the manufacturing and distribution stage of production.The tax is collected only at the place of consumption. This design addressed cascading of taxes.

Certain main features of GST

- GST would be applicable on supply of goods or series as against present concept of tax on the manufacture or on sale of goods or provision of services.
- It would be dual GST: Centre and State simultaneously levying it on common base
- Integrated GST on inter-state supply of goods/series collected by Centre.
- Import of goods and services are treated as inter-state supply of goods and series and subject to IGST.
- A non-votable additional tax not exceeding 1% on inter-state supply of goods would be levied by centre and retained by originating state at least for 2 years
- CGST, SGST, IGST would be levied at rates to be recommended by Goods and Service Tax Council (GSTC) which will be chaired by Union Finance Minister and will have State Finance ministers as members.
- GST will exempt alcohol, tobacco and tobacco products, petroleum products.
- Zero rating exports

GST and its impact on SME

SME is always represented the model of socio-economic policies of Government of India which emphasized judicious use of resources. The SME are being the major sector of the Indian economy face problems with respect to finance and procedural haphazard. The present threshold prescribed in different state VAT acts below which VAT is not applicable varied from state to state. The existing threshold of goods under state VAT is Rs. 5 lakhs for a majority of bigger states and a lower threshold for north eastern states and special category states. A uniform state GST threshold across states is desirable and therefore, the Empowered committee has recommended that a threshold of gross annual turnover of Rs. 10lakh both for goods and series for all the states and union territories may be adopted with adequate compensation for the states with lower threshold has prevailed in the VAT regime.

Keeping in view the interest of small traders and small scale industries and to avoid dual control, state considered that the threshold of CGST for goods may be kept at Rs 1.5 crore and the threshold for services should be appropriately high. This raising of threshold will protect the small traders. Business need not to go for multiple VAT registration, single GST registration is applicable across India

Input credit mechanism and SME

The input credit mechanism under goods and services tax will help price products more competitively. The proposed goods and service tax (GST), which has seen the main political parties adopt opposing views, spells a mixture of good news and some restrictions for small and medium enterprises (SMEs). It is said that, the GST will enhance the competitiveness and efficiency of SMEs to the global level and mitigate the cascading effect of the current tax system. Further GST will help in “normal tiering”. Usually SMEs will have Tier-I, -II and -III suppliers. When they go from sub-contracting to bought-out, the four per cent Central sales tax makes it uneconomical to do a complete bought-out. Therefore they have hybrid models, which are not efficient, and quality suffers in the process. Once the GST comes in, there will be tier-I units to make complete assemblies, tier-II units to make sub-assemblies and tier-III units to make ‘child’ parts.

Once GST is introduced, SMEs would be in a position to avail themselves of the complete input credit for taxes paid (other than basic Customs duty) on procurement from various sources such as import, inter-state purchases and local purchases. Under the current value-added tax (VAT) regime, the ability of SMEs to reach potential consumers across India is limited because of the Central sales tax (CST) on inter-state sales, which is not available as input credit to the buyer and thereby increases the purchase cost in the hands of the buyer. Unlike larger players, SMEs lack the infrastructure to open depots in other states and stock-transfer the goods to avoid the impact of CST. Under the proposed GST regime, despite this handicap, this cost will get neutralized through the input tax credit mechanism, thereby increasing the competitiveness of products.

The input credit mechanism under GST does away with the cascading impact of input taxes in product pricing completely, and hence products are likely to be more competitive, depending upon the rates of tax applicable currently and in the GST regime. However, on the downside, the turnover threshold for tax exemption may come down from the current Rs1.5 crore to Rs10 lakhs. In any case, in those sectors that cater to businesses, the reduction in the exemption threshold at worst, could call for increased working capital to finance the tax payment until receivables are realized. To the SME customer the tax is a flow-through, since the GST levy will be available to him as input credit and hence the reduction in exemption threshold may not impact SMEs significantly. However, SMEs that manufacture consumer goods which are sold directly to end-customers may face a challenge in the face of reduction in exemption threshold, since no credit is available to consumers and this will add to the cost of goods sold to consumers.

Conclusion

The SMEs being the core sector of Indian economy today by contributing to 40% of employment and 17% to the GDP has to look into the depth. The proposed GST will have major positive effect on the growth of SMEs and it expected from the Finance Minister that, GST will increase the GDP growth by 2%. Thus, there is a need to look into the impact of GST on SMEs and have to make proper road map for them to sustain in the international competition flood.

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THE IMPACT OF THE GOODS AND SERVICE TAX ON THE HOSPITALITY INDUSTRY

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Abstract

As the world is becoming expensive, the public is getting more careful on what they spend and where their money goes, the prevailing tax scheme does not allow the consumer to know how much he will be spending towards tax. In the hospitality sector, the consumer is presently bearing the heavy burden of tax on both the food they consume and the services they receive, but they are usually prey to a lot of hidden taxes and charges that are levied by the proprietor on the invoice. The implementation of GST will allow the consumer to be free from the unnecessary taxes that they pay as the bill will eliminate the differential taxes and will implement a unified tax regime for all goods and services provided. This paper is a conceptual study on how the introduction of the GST bill will affect the consumers of the Hospitality industry. The consumers of this sector of the market pay exorbitant tax charges under various heads of tax, i.e. service tax, VAT, Octroi duty etc. but with the implementation of GST all, the above-mentioned taxes will be subsumed under one unified tax rate system. This study concentrates on how the implementation of a uniformed tax rate will affect the turnover of the Hospitality sector if it is not contained within a cap of 10%. Why the government should consider this plea while setting the tax rate.

Keywords: *GST, Hospitality sector, Unified tax, GST cap of 10%, Food and service.*

Introduction

In a world, changing at momentous speeds and no aspect of our life is being spared from this change. The world of tax and tax administration is now seeing some drastic changes that are affecting everybody, be it the producer, retailer, or the ultimate consumer. The introduction of the Goods and Services Tax (GST) bill in the 122nd amendment of the constitution bill of 2014 has brought in a lot of speculation of its benefits and limitations to the payers of tax and

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the collectors of tax, i.e. The Government. Tax on consumption of goods and services on a value added basis, more commonly known as the Value-Added Tax (VAT) or presently being changed and popularized as the Goods and Services Tax (GST) is emerging as the tax of the future. In a global, competitive environment for keeping up with the global trend, we see the reduction of direct taxes and the increase of indirect taxes in order to derive higher revenue.

An overview of Goods and Service Tax (GST)

A comprehensive value-added tax on goods and services, GST is levied and collected on the value addition of each stage of sale or purchase of goods and supply of services based on input tax credit without state boundaries. Input tax credit means the credit of tax paid on inputs. In simple words, every dealer is liable for output tax on the taxable sale that affects him, but the basic principle of VAT says that the dealer is liable only for the value addition in his hands.

A major indirect tax reform, GST will take VAT to its logical conclusion. Once introduced even, central sales tax will reduce. The Goods and Services tax is a system of taxation that imposes a single tax of both, goods and services. This system to taxation ensures a single tax for the entire country and when introduced will eliminate all indirect taxes. A worldwide-accepted system, France was the first country to introduce GST. It provides a uniform tax rate for goods as well as services. The assumed rate of GST will be 16%-20%, which much lesser compared to the prevailing tax rates of 35%-40%. Once GST is introduced, the price of products will reduce. Generally, when the price of products reduces the demand for the product will rise; this in turn will raise working capital.

The implementation of GST into the Indian system of tax will bring about the elimination of the cascading effects of the prevailing tax systems. GST, being an indirect tax has both its positives and negatives.

Literature review

(India, 2009)

Speaking about the limitations of the prevailing system of taxation in the country said the central tax (CENVAT) of the government bears its shortcomings in the non-inclusion of many of the central taxes. In addition, while talking about the state level VAT, it pointed out the inclusion of the CENVAT to the value of goods that where to be taxed under the state level tax scheme, this brought about a cascading effect on the consumer who was to pay the taxes. The report further stated that any commodity produced is based on physical inputs as well as services, and that there should be an integration of VAT on goods with an addition of tax on services and at the same time, measures be taken to eliminate the cascading effect of taxes.

Furthermore, the committee said that the introduction of GST at the central level would comprehensively include the indirect taxes and service tax for the purpose set-off relief, and increase the revenue gain of the centre. GST is not simply VAT with the inclusion of service tax, but an improvement of the previous system of VAT with disjoint service tax. With the introduction of GST, the state will have to be given the power to levy taxes on all services, which was prior held only by the centre which will give multiple positive outcomes to the consumer by eliminating the effect of cascading taxes and subsuming several taxes under GST.

(Ms. Divya Sathyanarayanan and Mr. Sachin Dave, 2015) The introduction of GST will bring about uniformity in tax rates and will definitely reduce the paper work for the people working in the industry. This will only be beneficial if the tax rate is capped at 10% or lower. Anything higher will have an adverse effect on the revenue of the industry. This will not only affect the industry but will also curb the spending ability and consumption capacity of the consumer.

(Lokesh, 2015)

The introduction of GST will be a huge milestone in the reforms that are required for the country. The quantum of the tax rates remains unclear as the bill hasn't yet been passed for implementation in India, but the assumed tax rates that are likely to be in the range of 16%-20%. For an industry that is already struggling of high costs of capital and extreme tax structures, these rates will be a huge burden when GST is introduced. Even though the passing of the GST will be a step in the right direction for our economy, the high rates would have to be brought down for the hospitality industry and the foreign travelers could be exempt from GST or allowed for a refund.

(Poddar, 2015)

Through the optimism of having substantially less paper work and filing, the HRAEI is unhappy with the fact that if the GST rates are going to be the speculated rates of 16%-20% and it will be too expensive for the Hospitality sector, and will be a bad blow to hotels and restaurants which will suffer badly. The members of the association feel that the rates should be capped at 10% for the hospitality sector, if not the turnover will start showing negative results. It is also important to note that the Hospitality industry will not gain much advantage from GST as their input credit will be much lower than the tax paid, as majority of the input expense of any hotel is their labour.

(Federation of Hotels and Restaurants Association of India , 2015)

An industry that has been facing challenges for the past two years due to the continued global uncertainties and a domestic downturn, the hospitality industry has been facing these adverse headwinds and overcoming them. The long-term potential of the industry is growing rapidly and the introduction of GST will help this fast growing industry. Conversely, the setting of high tax rates will be burdensome to the consumers. The introduction of the bill is fully supported by Federation of Hotels and Restaurants Association of India (FHRAI) only with a request of capping the composite rate burden at 8%. This according to the president of the association will help the growth of the industry.

Methodology

Type of research: Exploratory

The secondary data for the study includes the provisions of GST and it’s after tax effects on the consumer.

The sources of secondary data are Government reports, news articles, official reports by recognised organizations of the Hospitality industry and other sources available on the internet.

Statement of the problem

A country that is filled to the brim with various cultures, traditions and spectacular natural and man-made heritage, India is a major attraction to tourists for various purposes, be it, pilgrimages, vacations or even for the purpose of business. This increase in travel and tourism is a sign of the growth the Hospitality Industry has been witnessing in the recent past. The hospitality industry is a major source to the revenue of the country. The development and maintenance of this sector is necessary for the increase in the national GDP. Already standing as one of the major contributors to the revenue of the country the Hospitality Industry is ever growing. Currently the tax rates that the government charges on this industry, pose as a burden on the consumers.

The introduction of GST will be instrumental in controlling the excess charges levied on the consumers, but if the rate of tax under GST is set at the assumed 16%-20% it will turn out to be a burden on the consumers and this in turn will result in the reduction of sales. The prevailing tax rates add up to be a burden on the consumer as the differential taxes on the food and services cascade onto the consumer. With the introduction of GST this cascading effect will reduce, but the high tax rates will only be a heavier burden for the consumer to bear.

Scope of the study

The study restricts to analyse the impact of GST on the consumers of the hospitality industry only in India.

Objectives of the study

- To highlight the impacts of the Goods and Service Tax (GST) on the Hospitality industry.
- To analyse the effect of taxes prior and post GST implementation
- To suggest policy recommendation based on the results of the study

Results and Discussions

The impact of GST on the Hospitality industry

A composite system of taxation, GST is a reform in the indirect tax system of India. It aims at subsuming all indirect taxes under a single universal tax regime. The tax rates under GST have not been finalised and this has caused unrest in the hospitality industry. The tax rates are assumed to be set in the range of 16% to 20% under the GST system.

The implementation of GST has more positives than negative, with the elimination of multiple direct and indirect taxes, the consumer will only benefit. As the tax rates are stabilised and made uniform, the Hospitality industry will see a rise in revenue. The GST bill will prove to be beneficial to the government, the producer and the ultimate consumer. To the government, it will benefit, as the increased uniform rates will ensure better returns. To the producer, in this case the Hospitality industry, work will be easier as there will be lesser paper work and reduction in filing which will allow him to concentrate his time and effort on the business. Finally, to the consumer, the GST bill will have the effect of a double-edged sword. As the consumer benefits because of the elimination of various direct and indirect taxes, he can enjoy his time dining out without the worry of having to pay taxes for the food consumed, and also the additional tax that they would have to pay for the services rendered. On the other hand, the rate of 16%-20% that is the assumed rate is too high for the consumer to pay as tax. As the tax rates increase, the consumers will only reduce dining out, which in turn will bring down the revenues to this sector.

When the tax rates are high, to avoid payments of tax the consumers will refrain from collecting bills for their purchase, which will not be favourable to the government. This will be an unethical profit to the producer, who will not have to pay tax for that sale because there is no invoice to prove the transaction. Hence, it is advisable to the government to set a standardized rate of GST that is both efficient and effective.

Comments: The impact of GST on the hospitality industry is positive but not without adverse effects. It is a good step for the government to implement GST for the benefit of the consumer and the country at large

Effect of taxes prior and post GST

As per the current tax regime the government has set 5.6% as VAT and 12.5% as service tax on the Hospitality sector which is payable by the consumer. It is a generally observed that the consumer is ignorant of the taxes he pays but still criticizes for having to pay a part of their bill in a restaurant on tax. The differential taxes create a cascading effect on the payment of tax for the consumer and thus become a burden for him. The consumer often has to pay many unnecessary taxes, which are billed to him under various heads. He falls prey to the payment of excess taxes under this regime.

Table1: Prior GST

Sub-total	2000
Service charge @10% (2000*10%=200)	200
VAT@ 12.5% (2200*12.5%=275)	275
Service tax @12.36% (on 40% of bill, excluding VAT) (2200*40%=880) (880*12.36%=108.76)	108
Net amount	2584

Source: Tarini, 2014, March -switchme.com

With the implementation of the GST, the consumer of the Hospitality sector will be free from these additional heads of tax. The hospitality industry is positive that the tax regime will help reduce multiple taxation, giving a significant boost to the hospitality and tourism industry. It will give him the opportunity to pay only what he is entitled to and reduce the burden of the cascading effect of tax. Conversely, if the GST rate is set at the assumed rate of 16%-20%, the consumer will face a heavy tax burden, as he will be paying a major portion of the invoice as tax. This will in turn reduce the revenue of the producer, which will ultimately affect the government.

Table 2: Post GST

Sub-total	2000
Service charge @10% (2000*10%=200)	200
VAT (assumed 16% under GST) (2200*16%=320)	352
Net amount	2552

Assumption: tax rate is assumed to be 16%

Comments

From the above two tables we can see the effect that the tax rates will have prior and post GST. Even after subsuming the various tax heads under one there is no much difference. This example assumes the GST rate to be at the lower limit of 16% but if it is set higher than the consumer will have to bear a heavy tax burden.

Recommendation

It will be beneficial for all the parties involved in tax regime i.e. the government, the producer and the consumer, if the GST rate is standardised for the Hospitality industry at a convenient rate. Standardising the tax rate between 8% to 10% for the hospitality industry will ensure that the consumer will not be hurt by the heavy tax implemented and make sure that the government does not face a detrimental effect on revenue. This study emphasises the effect of GST mainly on the hospitality sector, especially the Hotels and Restaurants. Therefore, we should remember that the above suggestions made are for the same and are not general.

The government decision to set the GST rates will obviously be a choice one that will either have positive or negative repercussions. Keeping all the factors that are involved in the tax regime, the rate set should be beneficial, in terms of either revenue or value of the produce.

Conclusion

As one of the prominent sources of revenue to the country, the government must take steps in order to help the Hospitality industry in keeping their revenues. The industry provides for 6.23% to the national GDP and 8.78% of the total employment in the country. Being main reason for increase in tourist population, the industry is now worried that the implementation of high rates of GST will hinder the growth of the country's revenue, as the tourist will now have to pay higher amounts as tax. Setting a limit to the increase in tax rates, the government should cap the GST rate for the hospitality industry at 10% for the benefit of the tax-paying consumer. It is a matter of importance that the government take into consideration the views of the leaders of the hospitality industry while setting the tax rates. Being one of the major revenue sources for the nation, a nominal fee must be decided upon, which will help the consumer by reducing the tax burden and at the same time provide a source of revenue for the country.

Due to the differential tax rates present in the prevailing tax regime, there is a cascading effect of these taxes that creates a burden on the consumer. This also creates more paper work for the industry. With the implementation of the GST, both these issues will be dealt with as a single uniform tax rate will replace the differential taxes. The problem will only arise when the tax rates will be higher than the prevailing tax rates. This issue can be resolved if the government caps the tax rate at 10%, which is a nominal rate. This rate can prove to be beneficial to both the consumer and the industry and the country at large.

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GST AND ITS IMPACT ON TAX BURDEN

Ruth Priyanka Immanuel, Winston Terence

Abstract

This paper studies the concept of Goods and Service tax, and its implications on tax burden at different levels and various sectors in the economy. An idea which was initiated in the year 2000 now making steady progress to almost being implemented, the Goods and service tax or GST bill is a transparent bill ,a Value Added Tax that will substitute all indirect taxes and bring uniformity amongst the tax levied on goods and services. In India indirect taxes go up to 28.2 to 30.8 per cent, where as the average GST rate globally is close to 16.4 per cent, this will beg the question on how far the tax burden will rise or drop and on whom. A study on the various sectors in the economy show that GST seems to be more favourable for the nation, it is stated that the country will gain up to 15 billion dollars in a year. This is because GST will promote more exports, create more employment opportunities and boost growth it will divide the burden of tax between goods and services. A dual GST plan is to be implemented in India i.e. State goods and service tax and Central goods and service tax, GST rate is expected to be about 10 per cent on services and 20 per cent on indirect tax of most goods. The new deadline for the bill is now set at April 1st 2016.However, there will always be a few repercussions on all changes, GST might not be beneficial to everyone in the nation, some states that are majorly dependent on a particular good or service might face difficulties in sharing its revenue with the government, also a uniform tax rate means no distinction between the economically weak and well off in the society. The government can still take various measures to keep these challenges in control. Some experts argue that the exclusion of few products such as alcohol, tobacco and petroleum products may result in loss of revenue as the state can still enforce the local tax rates it determines. An objective view point of the topic is presented by an expert's opinion on the matter in which it explains the benefits GST can bring and thoughts on why implementation is being delayed, also a study on different sectors gives us the framework on how these sectors must adapt to the new reform and can benefit greatly from it. Finally, a deliberation on the benefits the Goods and Service Tax bill will carry.

Key Words: *Central state tax/CST, Entertainment tax, Entry tax, Excise duty, Goods and service tax, Tax credit, Value added tax/VAT.*

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Introduction

What is GST?

Goods and service tax is an indirect tax imposed on most goods and services, its objective is to eliminate taxes levied separately on goods and services and to consolidate under a single domain for both goods and services. It's a Value Added Tax payable at the final point of consumption.

A dual GST is planned to be implemented in India:

- State goods and services tax (SGST)
- Central goods and services tax (CGST)

GST will combine Central excise, Additional excise, Service tax, State VAT and entrainment tax all under one banner.

Table No: 1: Rates of GST

Country	Rate of GST
Australia	10 %
France	19.6%
Canada	5%
Germany	19%
Japan	5%
Singapore	7%
Sweden	25%
New Zealand	15%

Source- *"All about goods and service tax in India" CA Kapil Goel, May 10th 2015*

In India the government proposed the GST rate at 27% which is well above the global average of 16.4% for similar taxes. At present, 10% is levied on services and the indirect tax on most goods is around 20%.

Items such as alcohol, tobacco, petroleum products are not included under GST.

Review of Literature

Mukhopabhyay, (2015), How GST will benefit manufactures and traders, GST will benefit the manufactures the most as they will have no entry tax, there will have a common market and central excise tariff will disappear. The abolition of entry tax will be a great boon for the movement of goods transport, giving relief to input duty will be more comprehensive when

GST is implemented this is termed as zero rating. The GST regime will make it one uniform tax which will make rate of duties same all over India

Rumani Saikia Phukan, (2015), what is GST: How will in change India? GST would no doubt do well for the economy in various ways one of the major ones being a reduction of the tax burdens for manufactures and various other sectors in the economy. GST will help build a corruption free tax administration and will avoid many hidden tax issues. Tax will be levied and collected once and for all rather than at different points of manufacturing to consumption, consumers will see a fall in prices and lower prices will mean more consumption and more production

Times, (2015) GST to reduce tax burden: "The global average of GST rate is 16.4 per cent but in India, indirect taxes are as high as 28.2 to 30.8 per cent. The GST will help in decreasing the tax burden on the consumers", said an RBI board member indirect tax amounts to almost 28 per cent in our country; hence the implementation of the GST bill would absolutely reduce this by almost 12 per cent. It will replace an array of indirect taxes. States such as Punjab, Haryana and Maharashtra would lose their purchase tax levied on food, grains, oils etc

Goel (2015), All about Goods and service tax (GST) in India- GST would be the next logical step towards widespread indirect tax reforms in India. It is aimed at being comprehensive for most goods and services, the government proposed the GST rate to be at 27 percent, however our finance minister Mr. Arun Jaitley proposed that the rate is too high and needed to be much more diluted. GST will attract the same rate of tax for both goods and services. GST would reduce multiple points of taxation also since the aggregate tax rate will reduce the exports in the Indian market will increase.

Statement of the problem

The study looks into the impact of the GST bill on different sectors of the economy as the tax burden would vary depending on who it's levied. This study would benefit the various sectors and sections of the business community to understand the intricacies of GST and its nuances that would affect their business plan. Hence these people can benefit from this study by taking appropriate measures.

Objectives of the study:

- To study the impact GST will have on the tax burden on individuals.
- To highlight the benefits GST on different sectors of the market.

Scope of the study

The study of the paper will give an insight about the benefits of the GST bill amongst different sectors in the country, it studies the comparison of now and when GST will be implemented. GST would bring about uniformity with the tax rates and will reduce a lot of complications with regards to indirect tax. Goods and Services tax would definitely be beneficial for the major part of the economy.

Research Methodology

- The research method used is both primary and secondary data from various websites and published articles.
- Interview conducted with an income tax officer for an expert's opinion on the matter.

Limitation of the study

- Time constraint on the research, hence city limited was limited to Bangalore.
- Most data found was speculatively exploratory in nature since the bill is yet to be passed in the GOI.
- Final conclusions may differ on different perceptions.

Discussions:

Why GST?

- Uniformity, the main aim of GST is to eliminate all other indirect taxes and to bring it under a single, unified market that will benefit both corporate and the economy.
- GST will be paid at the final point of consumption and not at every stage; this will promote a stronger economy and will bring about a common national market.
- If GST were to be implemented it can alter the tax administration
- GST is expected to increase economic growth between 0.9 to 1.7 per cent
- The current rate of indirect taxes levied in India is about 20 per cent GST is expected to be around 15 per cent in the first year and eventually come down to 12 per cent in the second year
- GST will reduce production costs hence making exporters more competitive.(Economic Time, 2015)

Demerits of GST

The main aim of GST is to create a uniform market however due to exclusion of some goods like tobacco, alcohol and petroleum products it might be a hurdle for the government.

- For states like Jharkhand who are more dependent on products rather than services they will be sharing their revenues with the government, also they might not have adequate services to compensate for their loss in revenue
- Some States also feel that a uniform tax rate will create a dent in their collections
- The blunt tax would penalise everyone making no differentiation between the rich and the poor
- The most affected will be the consumers as they will have to pay tax at the final point of consumption, which means there may not be a difference between the necessities such as food, clothing and medicines and luxuries
- There will be no distinction between the rich and the poor which may affect the equity of society((Goel, 2015)

Merits of GST

- There might be no distinction between necessities and luxuries; fortunately GST can be progressive if the government taxes more on luxuries and less on necessities, the government can also lend a helping hand to those financially needy citizens.
- Separate taxes is a hassle for the government and the producers it involves division of transactions values into value of goods and services for taxation leading to greater complications, GST will be able to solve this issue and integrate the tax giving an equal split between manufacturing and services
- GST will see to it that there is no hidden cost hence making the cost of doing business lower, this will ensure that export being more competitive.
- Both the State GST and the Central GST will be charged on manufacturing cost and will be collected on the point of sales, this would mean that prices will come down for the citizens and companies will benefit as consumption will increase.
- Doing business will be much easier as multiple taxes such as octroi, central sales, entry tax will be consolidated into one, which is perhaps the greatest benefit for manufactures as there will be hidden taxation involved.
- The exemptions given now by the central and the state government is different the final prices is different from different states the rate of duty will be uniform across the country when GST is enforced.

France was the first country to implement GST in the year 1954, close to 140 countries have already implemented GST including Australia, Canada, Germany, Japan and Pakistan. The idea of GST was initiated in India in the year 2000; clearly it seems that GST would do more good than harm if enforced in our country. It sets to integrate state economy and boost overall growth. The latest deadline is set at April 1st 2016((Choudhury, 2013)

Tax Burden- Less with GST?

Looking at the various aspects of GST we can only help but imagine what benefits or repercussion it might have on the burden of tax be it at any stage i.e. the producer, retailer or consumer, the bill seems to be leaning more in favour of the fact that this is beneficial for the country and apart from various other benefits it looks like the reduction on tax burden would be a major one.

GST on Consumers

We pay entertainment tax for watching a movie, a VAT when purchasing a good and so on and so forth as of today there are some taxes levied by the central and some by the state a uniform tax rate would certainly make things easier according to Indira Rajaraman GST will result in a lesser tax burden on consumers, besides boosting the country's economic growth.

"The global average of GST rate is 16.4 per cent but in India, indirect taxes are as high as 28.2 to 30.8 per cent. The GST will help in decreasing the tax burden on the consumers", Indira Rajaraman (RBI board member) however a different point of view can be studied. As the tax is collected only at the final point of consumption the supplier will be able to offset the levy through a tax credit mechanism, since it's an indirect tax the ultimate burden will be borne by the consumer himself. The uniform

tax system will also not distinguish between a rich and poor consumer which might affect the social equity in society, fortunately enough the government can make flexible reforms to charge taxes based on necessities and luxuries they can also help the financially poor in the society to cope with the change. The consumer will definitely have a mixed bag GST affecting the ultimate consumer will depend of various factors at an average rate of 18% it would not impact the end consumer too much, but at the same time the government revenues are expected to go up due to better compliance (Maheshwari, 2015)

GST on Manufactures

Manufactures will be able to claim more tax credit on the GST regime, let's assume that a manufacturer makes a sale of 65 lakhs and the tax credit available to him is 25 lakhs (VAT) which means he will have to pay a sum total of 40 lakhs to the government under the current tax regime. The same scenario under the GST regime would look like differently apart from the 25 lakh VAT credit available to him he can also credit on CST of 10 lakhs and on entry tax of 5 lakhs which means his net tax payable will amount up to just 15 lakhs, here we can see that the producers has saved up to almost 25 lakhs. The GST hence reduces tax burden on producers.

The GST combines excise, additional customs, luxury taxes etc. This means that under this regime the producers can avoid filing multiple tax returns.

Service providers will also be able to claim credit on VAT under the new regime GST hence will reduce burden to some extent to service providers al well (Times, 2015)

GST on service sector

The usual service tax rate on supply was close to 12% to 14% Thus cumulatively any tax above the 14% mark will act as a deterrent for the industry due to a rate hike in providing services. With the average rate suggestions by Kelkar committee being RNR 27% to a more optimistic assumption of RNR 18% as per media reports, all the assumptions certainly seem to indicate an uphill rate hike. The services providers will have to take a conscious call on whether to assume the additional cost through their margins or raise the cumulative price of their services.

Also, abatement enjoyed under the service tax regime may be discouraged under the GST regime adding to the woes of some service providers. GST implication on non tax territories namely Jammu and Kashmir is still in speculation.

GST on trading sector

According to DNA,2015 the Confederation of All India Traders (CAIT) has called upon the Prime Minister to convene a special session of Parliament soon to pass the deadlocked GST Bill and has asked parties not to play a “political innings” on the issue’.

GST will help the trading communities get rid of multiple taxes and tremendous amount of paper work. As of now goods are being sold within the state so as to avoid paying CST which is not credited in the course of trading. Good quality products being manufactured in one part of the country will find more market in the farthest part of the country because there will be no CST and no entry tax, hence in the absence of CST and entry tax a common market will be created.

Giving relief to import duty or zero rating doesn’t give relief to some duties with the help of GST zero ratings will be more comprehensive

GST on IT sector

GST rate is being discussed in the context of goods at around 27 per cent services could attract a lower rate of interest, a service provider may well need to evaluate a reduction in the cost of providing services as well as the ability of the customer to absorb the GST charged on the supply. Today, a IT service provider is unable to claim credits of value added tax/sales tax incurred in creating his IT infrastructure and the service tax charged by the IT service provider to a customer who is a trader is a cost to such trader. However under the GST system both the IT provider and his customer should be able to claim full credit on GST, this will also allow to leverage on tax efficiency and recoup additional profits on the supply. The IT sector can also see an end to the dual levy regime which could reduce their tax burden.

In an ideal situation, we can clearly see that GST would do more good rather than harm to any of the above mentioned sectors and individuals.

Experts from an Interview with an Income Tax Officer (Mr. S.A Immanuel)

1. **How is GST different from the other indirect taxes?**

   The GST bill imposes by both state and central government on almost all goods and services produced in India and also goods and services imported into the country. The implementation and the rate of GST will be decided in the parliament. The rate of GST will be the same all over the country where as the rate of other indirect taxes varies from one state to another. The implementation and the rate of sales tax, VAT and commercial taxes will be decided in the state cabinet.

2. **What is the difference between SGST (State goods and service tax) and CGST (Central Goods and Service tax)?**

   Sales tax is the one levied by the state Government and CST is collected by the central sales tax authorities. As a state customer one person has to collect for his business, for remitting sales tax, ‘The C – Form’ from his supplier and submit with state sales tax authority for the clearance of his local tax dues.

   GST is a value added tax to be implemented in India, the decision on which is pending. It will replace all indirect taxes levied on goods and services by the Indian Central and State Government. It is aimed at being comprehensive for most goods and services with few tax exemptions. India is a federal Republic and the GST will thus be implemented concurrently by the Central and State Governments as the Central GST and State GST respectively.

3. **Who will gain the most if GST is implemented and why?**

   Most of the States especially consumer states and the common man will be gaining. GST will reduce tax on tax, it will be beneficial to manufacturers, industries and the whole country at large because it will bring transparency and better revenue collection and even reduce corruption.

4. The idea of GST was initiated in the year 2000 under Vajpayee, why is the bill taking time to be passed?

The concept of GST idea is not accepted by many of the state government and lack of support from opposition in both the houses.

5. How will it impact Government revenue?

(a) The Government revenue will boost with proposed GST model of indirect taxation.

(b) There are for basic structures,

- Exempted goods
- Zero rate commodity
- Standard rate at 4%
- Residuary rate at 8%

Also one hidden tax rate would be proposed for precious metal and stones at the rate of 1%. This tax structure would be SGST and CGST but interstate supply of goods and services at 16% (CGST 8% and SGST 8%). It would definitely be very good for the economy as a whole.

6. Will there be any repercussions in passing the bill for any sector specially?

First of all, GST in an important source of revenue for the Government especially for the countries such as Singapore and Hong Kong where the personal and corporate tax are low. With huge amount of GST collected, the government can manage the country more effectively which is obviously more beneficial to both individual and society as a whole, for example, the government can use the GST collected to bring infrastructure such as hospital and schools so that people get access quality health care and education.

GST can also be a tool for the government to curb the over consumption of undesirable goods. Government can set high GST for cigarettes, Alcohol. Supply curve shifts up and quantity demanded drops. In economic terms tax is varied across different goods and services so as to reduce the societies' welfare, dead weight loss due to over consumption of demerit goods or goods that impose negative externality.

However the GST is not flawless. The blunt fact penalises everyone in the society equally, inclusive of both the rich and the poor. Unlike the income and corporate tax, GST is hardly progressive. It makes necessities such as food, transport, houses, clothing and medical treatment more expensive to the exact the same extent to both the rich and the poor, adversely affecting the equity of the society. Fortunately the GST can be progressive if the government taxes more on the luxury and less on the necessities. Moreover government can construct strong transfer or welfare system to assist those financially needy citizens.

7. In your expert opinion, is Tax burden less with GST?

Yes, the benefits of tax are the goods and services that the government provides –

- Provides a stable set of instructions and rules.
- Promotes effective and workable competition.
- Corrects for externalities
- Creates an environment that fosters for stability and growth
- Provides public goods
- Adjust for undesirable market results.

Conclusive Results

GST seems to be beneficial for the economy and can reduce tax burden on various sectors and individuals. It will bring uniformity in the cascading tax rate which will lead to more government revenues and impulsive growth in economy.

GST will ensure that the cost of tax the consumer will have to bear would definitely reduce. The consumer would also benefit in the long run as price of goods will decline eventually.

Various sectors such as trading and information technology also have a lot to benefit from GST, on a whole all the sectors can avail tax exemption and there might be a shift on tax burdens at the final consumption point i:e the consumer.

One of the greatest benefits a tax payer can gain from GST is elimination of multiple taxation, this will also reduce paperwork and clean up the mess that indirect tax has created.

GST will be a major contribution for the business and commerce. If the government works in an efficient mode, it may be possible that a single registration will suffice both the SGST and CGST provided the government produces effective IT infrastructure. GST is a “one point single taxation”, thus this gives a lot of comfort to the business community that they would focus on business rather than worrying about their taxation. This will help business community to decide their supply chain, pricing modalities. GST also eliminates the multiplicity of taxation and GST will also be a step towards corruption free Indian revenue services.

Conclusion

The main purpose of GST is to make the current taxation system more comprehensive, efficient, effective, and transparent and business friendly. As a developing country, it is important for India to review its fiscal policy continuously. The Indian government should always make sure sufficient revenues are raised for the country with minimum impacts on people and resources, while at the same time improve the standards of living of poor people. Moreover, the government should always seek for ways to lower poverty level in India, thus a more equitable society can be achieved. The Indian government and the people in the country have to get ready for the tax reform.

Various sectors in the economy also have a lot to benefit from GST, sectors like IT and service will be able to claim tax exemptions and a lot the other taxes such as CST for traders can be avoided, this will be a big relief on such sectors since the an enormous amount of the tax burden will reduce and in the long run they can lower the prices of their commodities which will be beneficial for the consumers.

The bill would benefit both the individual and different sectors in the long run.

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