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GST IN INDIA A KEY TAX REFORM

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Abstract – ***In India we found existence of two type of tax system since 1961. Current indirect tax system, a complicated tax structure which is not to be easily understood to a common man so there is an urgent need of reformulate to old with new one, such a tax system which would be easy to apply, appreciate and not be overlapping specially Indirect tax. Goods and Services Tax (GST) is a proposed system of indirect taxation in India merging most of the existing taxes into single system of taxation. GST stands for "Goods and Services Tax" and is proposed to comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at the national level.***

It will replace all indirect taxes levied on goods and services by the Central Government and State Governments. GST is the only indirect tax that directly affects all the sections of our economy. India has been trying to implement the Goods and Services Tax (GST)for last few years but due to political and state governments autonomy issues the Federal government has been unable to make it law.

Keywords : Indirect tax, complicated tax structure, Goods and Services Tax (GST), simpler tax system

Objectives of study:

1. To know what is GST and how is vary from earlier VAT & other Indirect Tax system in India.
2. To study about why is necessary to introduce new tax structure (GST Bill) in the country.
3. To know How GST would be impact & benefit on various business sector including economy at large & society.
4. Challenges during implementation of GST.

INTRODUCTION:

The word „tax" is derived from Latin word „*taxare*" which means to estimate. A tax is an enforced contribution, exacted pursuant to legislative authority. Indian Taxation System comprise of- Direct and Indirect Tax. Goods and Services Tax (GST) is one of the most discussed Indirect Taxation reforms. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. It is expected to bring about 2% incremental GDP growth of the country. So, GST is the need of the hour.

History And Reforms

The taxes which will become a part of GST include central excise duty, services tax, additional customs duty, surcharges and state-level value added tax. Other levies which are currently applicable on inter-state transportation of goods are also likely to be done away with in GST regime.

Review of literature:-

1. Empowered Committee of Finance Ministers (2009) introduced their First Discussion Paper on Goods and Services Tax in India which analyzed the structure and loopholes if any in GST
2. Vasanthagopal (2011) in the article GST in India: A Big Leap in the Indirect Taxation System discussed the impact of GST on various sectors of the economy. The article further stated that GST is a big leap and a new impetus to India's economic change.

Table 3: Reforms in Indirect Taxation System

Year	Reforms
1974	Report of LK Jha Committee suggested VAT should be introduced
1986	Introduction of a restricted VAT called MODVAT
1991	Report by the Chelliah Committee recommended either VAT or GST which was accepted by Government
1994	Introduction of Service Tax @ 5%
1999	Formation of Empowered Committee on State VAT
2000	Implementation of uniform floor rate of tax for VAT at the rate 1%, 4% and 12.5%. and Abolition of tax related incentives granted by States
2003	VAT implemented in Haryana in April 2003
2004	Significant progress towards CENVAT, MODVAT was abolished and credit account was merged with service tax and excise to provide for cross utilization.
2005-06	VAT implemented in 26 more states
2007	First GST released By Mr. P. Shome in January Finance Minister announces for GST in budget Speech and CST phase out starts in April 2007. Then, Joint Working Group formed and submitted report
2008	EC finalizes the view on GST structure in April 2008
2009	First discussion paper on GST was released and commission submitted report proposing GST to be implemented from 1.4.2010
2010	Department of Revenue commented on GST discussion paper and Finance Minister suggested probable GST rate.
2011	Team was set up to lay down road map for GST and 115th Constitutional Amendment Bill for GST was laid down in Parliament
2012	Negative list regime for service tax was implemented
2013	Parliamentary Standing Committee submitted its report on the Bill
2014	115th Amendment Bill lapsed and was reintroduced in 122nd Constitutional Amendment Bill

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3. Seventy Third Report of Standing Committee on Finance (2012-2013) The Constitution (One Hundred Fifteenth Amendment) Bill, 2011
4. Bird (2012) summarizes in the article The GST/HST: Creating an integrated Sales Tax in a Federal Country the impact of GST will be on Canada.
5. Garg (2014) in the article named Basic Concepts and Features of Good and Services Tax in India analyzed the impact and GST on Indian Tax scenario and concluded that it will strengthen out free market economy.
6. Kumar (2014) studied in the article Goods and Services Tax in India: A Way Forward background, silent features and concluded with the positive impact of GST on present complex tax structure and development of common national market.
7. Indirect Taxes Committee of Institute of Chartered Accountants of India (ICAI) (2015) submitted a PPT naming Goods and Serice Tax (GST) which stated in brief details of the GST and its positive impact on economy and various stakeholders
8. The Institute of Companies Secretaries of India (ICSI) (2015) published a Referencer on Goods and Service Tax to provide the information on the concept of GST in details.
9. Parkhi did an exploratory research in an article Goods and Service Tax in India: the changing face of economy and stated that implementation of GST is a changing face of India and the government is well equipped for that which is a symptom of fast paced economy.

OBJECTIVE OF THE STUDY

The paper uses an exploratory research technique based on past literature from respective journals, reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study. The objectives of the paper are:

1. To study about Goods and Service Tax and its impact on the economy.
2. To examine benefits and opportunities of Goods and Service tax.

2. INDIA'S TAX SYSTEM

2.1 CURRENT TAX SYSTEM

Presently, India's tax system comprises a multitude of indirect taxes, applied at the central (federal) and state levels.This different tax system creates the need of one tax system. It is a comprehensive tax regime levied on manufacture, sales and consumption of goods and services. Table 1 shows the most notable ones, which the GST will subsume. It also summarizes the current central tax rates in the gst panel and the current range of rates of state taxes in the second.

	CENTRAL TAXES	**Rate**
1.	Central Value Added Tax (CENVAT) or Central Excise duty Tax levied on the production of manufacturing goods.	12.36%
2.	Service Tax Tax levied on provided services.	15%
3.	Central Sales Tax (CST) Tax on cross{state trade.	2%
4.	Countervailing Duties (CVD)	12.36%
	STATE TAXES	**Range Rates**
1.	Value Added Tax (VAT) Tax levied on the production of manufacturing goods.	10%-14.5%
2.	Sales Tax Additional tax levied on the production of manufacturing goods. It was replaced in most states by VAT, but not all.	0%-15%
3.	Entry Tax Tax on the entry of goods for consumption, use or sale in that state.	0%-12.5%
4.	Luxury Tax Tax on luxury goods and services that include hotels, resorts, and con-gregational halls used for weddings, conferences, etc.	3%-20%
5.	Entertainment Tax Tax on feature lms, major commercial shows and private festivals.	15%-50%

At the central level the most important taxes are the Central Value Added Tax (CENVAT), the service tax, the Central Sales Tax (CST), the Countervailing Duties (CVD), and the Special Additional Duty of Customs (SAD). The CENVAT (or Excise Duty) is a tax levied on the production of movable and marketable goods in India and is set at 12.36 percent. The service tax is a 15 percent tax on all services provided, wherein the service provider collects the tax on services from the service receiver and pays it to the government.

The 2 percent CST is a tax levied on all cross{state trade that is not destined for, nor originates from abroad. Even though the CST is a central tax, the revenue accrues to the state from which the sale originates. Finally, the government levies two additional taxes on imports in addition to tari s.[2]

Those are the countervailing duties (CVD) and the special additional duties (SAD), which amount to 12.36 and 4 percent, respectively. The CVD is an additional import duty levied on imported goods that are also produced in India to `level the playing eld' between domestic and foreign producers. The SAD is levied on imports to ensure that local sellers do not lose out on competition by counterbalancing the sales tax or value added tax payable by local manufacturers. At the state level the most important taxes include the state Value Added Tax (VAT), the entry tax, the luxury tax, and the entertainment tax.

The VAT taxes manufacturing goods produced within the state and ranges from 10 to 14.5 percent across states. The sales tax is a tax on goods sold within the state and ranges from 0 to 15 percent. It has been replaced by the VAT in most states, but remains in a few states.

The entry tax is levied on the entry of goods into a state for the consumption, use, or sale therein and it varies between 0 and 12.5 percent. The entry tax is similar to the CST in that it taxes cross{state trade, but unlike the CST, the revenues accrue to the importing state. Finally, each state raises its own luxury and entertainment taxes, which can go up to 20 and 50 percent, respectively. Luxury taxes are mostly levied on hotels, and entertainment taxes are typically levied.

Goods and Service tax bill officially known as the constitution (one hundred and twenty second amendment) bill, 2014 proposes a national value added tax to be implemented in India from June 2016. The GST implementation in India is „Dual‟ in nature, i.e. it would consist of two components: one levied by Centre (CGST) and another levied by States and Union Territories (SGST). However, base of tax levy would be identical.

Initially the idea was that there would be a national level Goods and Services tax. But as the release of first discussion by the empowered committee of the state Finance Ministers on 10.11.2009, it has been made certain that there would be a "Dual GST" in the country. Centre and state both governments are entitled to charge taxes on the goods and services. Almost 150 countries have introduced GST in some form Since VAT was beneficial for the taxation system but with certain shortcomings which are expected to be overcome by the Goods and Service Tax. Thus, it would definitely a positive reform for the Indirect tax system in India.

2.2 Tax System under the New GST

The new GST will merge the aforementioned indirect central and state taxes into a four-tier schedule of 5, 12, 18 and 28 percent, as seen in Table 2. While necessity goods will be taxed at 5 percent and luxury and consumer durable goods at 28 percent, most goods and all services will be taxed at the standard rates of either 12 or 18 percent, but the allocation to each tax rate is still uncertain.

Table 2: Proposed Tax Brackets

Goods				Services
Exempt	Low Rate	Standard Rate	High Rate	Standard Rate
0%	5%	12% and 18%	28%	12% and 18%
Agricultural goods	Necessity goods	Distribution is undecided	Luxury goods and consumer durables	Distribution is Undecided

(2) The main purpose of the GST is to eliminate the compounding effect of the current multilayered tax system as well as the cross{state tax heterogeneity by using the tax rate.[4] To illustrate this, the top panel in Table 3 shows the tax rate for a typical manufacturing good produced and sold in different Indian states or exported to the rest of the world (ROW) in columns (1) and (2). Column (3) presents the tax rate for an internationally imported manufacturing good. Column (1) shows the tax rates for manufacturing goods produced in the state of Andhra Pradesh. The rst row indicates that the total tax amounts to 29 percent if sold in Andhra Pradesh. This compounded tax includes the CENVAT of 12.36 percent and the Andhra Pradesh VAT of 14.5 percent. The second row shows that the total tax is 48 percent if that manufacturing good, produced in Andhra Pradesh, is sold in the states Maharashtra. The overall tax still includes the CENVAT and the Andhra Pradesh VAT. In addition, the good incurs an additional CST of 2 percent and an entry tax of 12.5 percent in Maharashtra. Finally, the third row shows that if the good is exported internationally, neither the CST nor the entry tax apply, and the total tax is 29 percent. It shows the tax rates for manufacturing goods produced in the state of Maharashtra and sold in the state of Andhra Pradesh, within Maharashtra, and exported internationally, respectively. It shows that the overall tax rates are lower compared to goods produced in Andhra Pradesh, which is primarily driven by a lower state VAT of 12 percent than the 14.5 percent state VAT in Andhra Pradesh. Finally, column (3) shows the tax rate of internationally imported goods amounts to 17 percent as both the CVD of 12.36 percent and the SAD of 4 percent are levied.

Table 3: Cross{state Taxes under Baseline GST

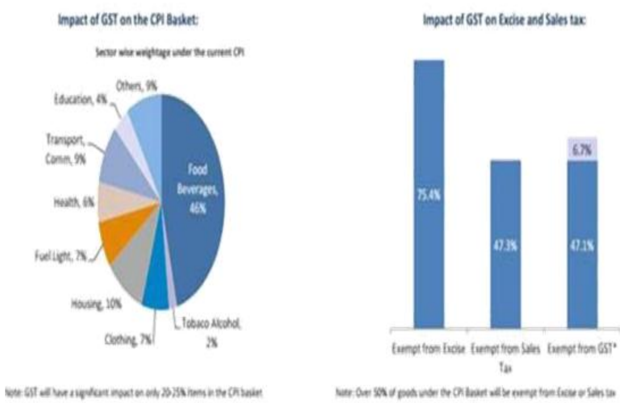
Current Tax System				
		Exporter		
		(1)	(2)	(3)
		Andhra Pradesh	Maharashtra	ROW
Importer	Andhra Pradesh	29%	28%	17%
	Maharashtra	48%	26%	17%
	ROW	29%	26%	0%
Tax System under the New GST				
		Exporter		
		Andhra Pradesh	Maharashtra	ROW
Importer	Andhra Pradesh	16%	16%	16%
	Maharashtra	16%	16%	16%
	ROW	0%	0%	0%

To highlight the impact of the new GST on the average manufacturing good, we construct a weighted tax based on the production shares of goods in each tier that maps the current VAT rate schedule onto these four tiers. In our baseline case, this amounts to an aggregate rate of 16 percent. The bottom panel of Table 3 shows how bilateral taxes would change under the GST for the same two Indian states and the ROW. It shows that, on average, goods are taxed at a rate of 16 percent across states. This implies that goods produced in Andhra Pradesh are subject to the same tax regardless of being sold within state or exported to another (column (1)). The bottom panel also highlights that international exports are exempt from the GST. The multiplicity of the taxation influences the company's decision on manufacturing location and distribution of Goods

Even in countries such as Canada, UK and Australia where food constitute a relatively small portion of the consumer basket, food is taxed at zero rates. While in some countries, food is taxed at a standard rate which is as low as 3% in Singapore and Japan at the inception of the GST. There are many items which are exempted from the GST. Following are the items which are exempted from GST.

Not covered under the GST purview:

1. Petroleum products
2. Entertainment and amusement tax levied and collected by panchayat /municipality/district council
3. Tax on alcohol/liquor consumption
4. Stamp duty, customs duty
5. Tax on consumption and sale of electricity



GST objectives: -

1. Ensuring availability of input credit across the value chain
2. Minimizing cascading effect of taxation
3. Simplification of tax administration and compliance
4. Harmonization of tax base, laws, and administration procedures across the country
5. Minimizing tax rate slabs to avoid classification issues
6. Prevention of unhealthy competition among states
7. Increasing the tax base and raising compliance

Implementation challenges:-

1. Lack of adaptation
2. Lack of trained staff
3. Double registration can increase compliances and cost
4. Lack of clear mechanism to control tax evasion
5. Hard to estimate the exact impact of GST

Impact on inflation:

Under the proposed GST, effective tax rate on goods (comprising around 70-75 per cent of the CPI basket) will decline. A significant proportion (35-40 per cent) of goods (majorly agriculture products) is not subject to tax and we expect a status quo in future.

At present, services-oriented components constitute 25-30 per cent of the CPI basket with a major share belonging to housing, transport and communication sector . Service tax is not imposed on certain (12 per cent of the CPI basket) services and these services are expected remain exempt under GST regime. A hike in tax rate on services is unlikely to have any material direct impact on CPI. Thus, the overall transition to GST will not have a significant impact on inflation

Sector wise impact of GST: -

Automobiles:

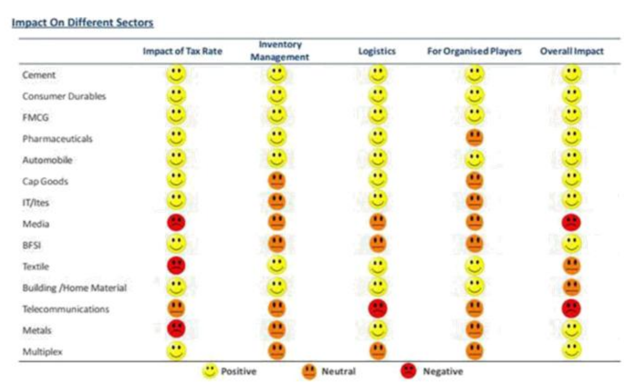
The effective tax rate in the sector currently ranges between 30 per cent and 47 per cent.

Highlights:-

1. On implementation of GST the tax rate is expected to fluctuate between 20-22 per cent.
2. It is expected to drive overall demand and reduce cost for the end user by about 10 per cent.
3. The transportation time and the overall cost will be reduced as the goods will be transferred from one state to another by easily surpassing various octroi and check points.

► In addition to this, the cost for the logistics and supply chain inventory will be curtailed.

Impact: In a long run, GST is expected to remain positive for automobile sector.


Impact On Different Sectors

	Impact of Tax Rate	Inventory Management	Logistics	For Organised Players	Overall Impact
Cement	Positive	Positive	Positive	Positive	Positive
Consumer Durables	Positive	Positive	Positive	Positive	Positive
FMCG	Positive	Positive	Positive	Positive	Positive
Pharmaceuticals	Positive	Positive	Positive	Neutral	Positive
Automobile	Positive	Positive	Positive	Positive	Positive
Cap Goods	Positive	Neutral	Positive	Neutral	Positive
IT/Ites	Positive	Neutral	Positive	Neutral	Positive
Media	Negative	Neutral	Neutral	Neutral	Negative
BFSI	Positive	Neutral	Neutral	Neutral	Positive
Textile	Negative	Positive	Positive	Positive	Neutral
Building /Home Material	Positive	Positive	Positive	Positive	Neutral
Telecommunications	Neutral	Neutral	Negative	Neutral	Negative
Metals	Negative	Neutral	Positive	Neutral	Positive
Multiplex	Positive	Neutral	Neutral	Neutral	Positive

Positive Neutral Negative

Key beneficiaries: Maruti Suzuki, Hero MotoCorp, Bajaj Auto, Eicher Motors, Ashok Leyland

Consumer durables

The current tax rate for the sector ranges between 7 per cent and 30 per cent.

Highlights:-

► **The implementation of GST will essentially benefit companies, which have not availed tax** exemptions in the past.

1. It will lead to the reduction of the price gap between the organized and unorganized sector.
2. The warehouse/logistics costs across the operational and non-operational segments will be curtailed. This will improve the operational profitability by almost 300-400 bps.

3. **The 7th Pay Commission is also expected to boost demand and fund inflow in the consumer** durables sector by the end of the year.

Impact: The impact may remain neutral or negative, specifically for companies which either enjoy tax exemptions or fall under the concessional tax bracket.

Key beneficiaries: CGCE, Havells, Voltas, Blue Star, Bajaj Electricals, Symphony, Hitach

CONCLUSION:

It can be concluded from the above discussion that GST will provide relief to producers and consumers by providing wide and comprehensive coverage of input tax credit set-off, service tax set off and subsuming the several taxes. Efficient formulation of GST will lead to resource and revenue gain for both Centre and States majorly through widening of tax base and improvement in tax compliance. It can be further concluded that GST have a positive impact on various sectors and industry. Although implementation of GST requires concentrated efforts of all stake holders namely, Central and State Government, trade and industry. Furthermore, the model suggests that the GST would lead to real GDP gains of 4.2 percent under the baseline assumptions, driven by a surge in manufacturing output

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