

ISSUES AND CHALLENGES OF GST

Sarika Chaturvedi

Research Scholar

Legal History

Indore Institute of Law

Pithampur, Indore, Madhya Pradesh, India

Abstract:

India is a federal country where Indirect Tax is levied by Federal and State Government. Value Added Tax is levied by State Governments. Every State has authority to decide the Tax rate and to control the Tax system as per their convenient. The Taxation power has been well defined in Indian Constitution. The Constitution (122 nd Amendment) Bill that seeks to usher in a Goods and Services Tax (GST) regime in the country will finally be taken up for discussion in Parliament. Finance Minister Arun Jaitley has been affirming that India will implement GST from 1 st April 2016. It can be looked as simplification of Taxes in country and avoiding unnecessary complexities. India is a federal country which has various Tax regimes and structure, where Tax is levied by both Governments. After the implementation of GST all the Indirect Taxes will be subsumed under an umbrella, it will be a milestone in the history of Indirect Tax reform. In this paper, an attempt has been made to examine the main issues of GST. This paper has also focused on the need and impact of GST in Indian economy and what challenges are arise for India.

Introduction:

The word tax is derived from the Latin word "taxare" meaning "to estimate". "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 first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom. Records from that time show that the pharaoh would conduct a biennial tour of the kingdom, collecting tax revenues from the people. Other records are granary receipts on limestone flakes and papyrus. Early taxation is also described in the Bible. In Genesis, it states "But when the crop comes in, gives a fifth of it to Pharaoh. The other four-fifths you may keep as seed for the fields and as food for yourselves and your households and your children." Joseph was telling the people of Egypt how to divide their crop, providing a portion to the Pharaoh. A share1 of the crop was the tax.

In India, the tradition of taxation has been in force from ancient times. It finds its references in many ancient books like 'Manu Smriti' and 'Arthashastra'. The Islamic rulers imposed jizya. It was later on abolished by Akbar. Reasons for this are cited to be financial stringency and personal inclination on the part of the emperor, and a petition by the ulema.

The period of British rule in India witnessed some remarkable change in the whole taxation system of India. Although, it was highly in favor of the British government and its exchequer but it incorporated modern and scientific method of taxation tools and systems. In 1922, the country witnessed a paradigm shift in the overall Indian taxation system. Setting up of administrative system and taxation system was first done by the Britishers. Broadly, there are two types of Taxes viz. Direct and Indirect taxes. Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

Taxes in India are levied by the Central Government and the State Governments. Some minor taxes are also levied by the local authorities such as Municipality or Local Council. The authority to levy tax is derived from the Constitution of India which allocates the power to levy various taxes between Centre and State.

Some of the important Central taxes, e.g. CENVAT, Customs Duty, Service Tax etc.

Some of the important State taxes are, e.g. State Sales Tax, CST, Works Contract Act, VAT, Entry tax, other local levies etc.

Originally, the taxes on the sale of goods were levied in terms of the respective Sales Tax/Trade Tax enactments and the 'entry of goods' was subject to tax under the respective State Entry Tax enactments and this scenario prevailed till the reform process set in whereupon these levies were replaced by VAT. The levy of tax on provisioning of services was introduced for the first time in 1994 and has been subjected to persistent vigorous legal challenges. Thus it is evident that the transition to VAT did not remedy the issue of non-creditable duties and the consequent cascading effect requiring further reform in the area and consequently GST arose. Despite of existence of multiple taxes like Excise, Customs, Education Cess, Surcharge, VAT, Service Tax etc. GDP of India is much lower than GDP of countries like USA, China and Japan. India has miles to go to achieve this level.

The reference of GST was first made in the Indian Budget in 2006-07 by the then Finance Minister Mr. P. Chidambaram as a single centralized Indirect tax. The Bill was introduced on December 19, 2014 and passed on May 6, 2015 in the Lok Sabha and Passed in Rajya Sabha on 3rd August 2016. The Government wants to implement GST Bill From 1st April 2017. Clause 366(12A) of the Constitution Bill defines GST as "goods and services tax" means any tax on supply of goods, or services or both except taxes on the supply of the alcoholic liquor for human consumption. So GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level.

Result and Discussion

Need for GST Model in India : Following are the supporting reasons to adopt GST:

1. Present system allows for multiplicity of taxes, the introduction of GST is likely to rationalize it.
2. Many areas of Services which are untaxed. After the introduction of GST they will also get covered.
3. GST will help to avoid distortions caused by present complex tax structure and will help in development of a common national market.
4. Existing taxes i.e. Excise, VAT, CST, Entry Tax have the cascading effects of taxes. Therefore, we end up in paying tax on tax. GST will replace existing taxes.
5. GST will lead to credit availability on interstate purchases and reduction in compliance requirements.
6. Introducing GST will do more than simply redistribute the tax burden from one sector or Group in the economy to another.
7. Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
8. Provides, greater certainty and transparency of taxes.
9. Ensure tax compliance across the country
10. GST will avoid double taxation to some extent.
11. The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of world. It will also improve the International cost competitiveness of native Goods and Services.
12. GST will provide unbiased tax structure that is neutral to business processes and geographical locations.
13. If the Goods and Service Tax is implemented in the true spirit, it will have many positives for the stakeholders and will lead to a better tax environment.

Impact of GST on Indian Economy:

The Goods and Service Tax (GST) bill is expected to have wide ranging ramifications for the complicated taxation system in the country. It is likely to improve the country's tax to GDP ratio and also inhibit inflation. However, the reform is likely to benefit the manufacturing sector but may make things difficult for the services sector. Though there are expectations that the GDP growth is likely to go up by 1 to 2 %, the results can only be analysed after the GST implementation. The response is mixed from countries around the world. While the New Zealand economy had a higher GDP growth, it was lower in case of Canada, Australia and Thailand after the GST was implemented. The one per cent tax that has been proposed as a sop to appease the States for compensating their loss of revenue from the inter-state CST is likely to play a spoil sport. It is probable that it may affect the GDP adversely. The Congress is already opposing the 1 per cent tax. The GS Tax rate is expected to be around 17-18% and can be assumed as a tax neutral rate. This tax rate is not likely to give any incremental tax revenue to the government. The rate will prove beneficial for the manufacturing sector where the tax rate is around 24% at present. The major manufacturing sectors that will benefit the most are FMCG, Auto and Cement. This is because they are currently reeling under 24 to 38 per cent tax. The sector which is going to be adversely affected is the services sector. Already there has been a hike from 12 to 14% from the 1st of June this year. Another 4 per cent increase will break their backs. The uniformity in the taxation rate is fine but it should not result in disparity for the goods and services sectors. Nobody has thought of the implications it will have in the services sector if the government moots a higher GS Tax rate like 20% or 24%. The higher GST rate will definitely boost the tax to GDP ratio, while giving financial muscle to the government for increasing the capital expenditure. This is likely to spur growth in the economy. There is definitely a silver lining to the whole exercise. The unorganized sector which enjoys the cost advantage equal to the taxation rate can be brought under the GST bill. This will bring a lot of unorganized players in the fields like electrical, paints, hardware etc. under the tax net. It is easier said than done. It will take a lot of meticulous planning in the implementation of the GST reform for capturing the unorganized sector under its ambit. For one it will widen the tax reach and secondly it will benefit the organized players who lose out revenue to the unorganized sector at present. There are still a lot of uncharted territories which need to be looked into through parliamentary discussions in the sessions. This will bring sanctity to the taxation system without hurting any of the sectors adversely. To The Individuals and Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies

Advantages of GST:

In this paper we were focused on at GST's benefits less developed states get a lift as the current 2% inter-state toll means production is kept within a state. Under the GST national market, this can be dispersed, creating opportunities for others. Investment boost as for many capital goods, input tax credit is not available. Overall tax credit under GST will mean a 08-10% drop in the cost of capital goods. Expected: A 6-7% rise in capital goods investment, 2-3% overall. Instead of maintaining big records by manufactures and others, returns and reporting under various different issues, all assesses will find comfortable under GST as the compliance cost of some important or daily uses goods may be fall. These reduced documentation and clear transformation will also help to build a transparent and corruption-free tax administration in India. Presently, a tax is levied on when a finished product moves out from a factory, which is paid by the manufacturer, and it is again levied at the retail outlet when sold. According to experts, after implementing the GST, India will gain approx. \$15-20 billion a year. This is because; it will help to promote more exports, create more employment opportunities and boost growth of country. It will divide the burden of tax between manufacturing and services. It will lead to development of common national market. Leakages can be controlled with the GST as tax structure.

Challenges for GST:

There are few aspects with disagree with the growth story and might be seen as hurdle. The aviation industry was witnessing the much awaited growth with increasing domestic traffic since from establishment; the GST implementation might slower the rate at

which the industry is expecting growth as flying will become expensive. Service tax on various fares currently ranges between 6% - 9% (depending on traveling class). With GST, the rate will surpass 15%, if not 18%, effectively doubles of the tax rate. India, on one hand, has the lowest insurance percentage in the world and on the other GST will further make the insurance products popular. Life, health & motor insurances will begin to cost more from July 2017 as taxes will go up by up to 300-320 basis points. If the rate of GST will be over 15 % the all the services will be costlier. It is really required that all the states implement the GST together and that too at the same rates, It will help to stay service charge constant. Different tax analysts say that real estate market will be 12 % down by GST and may affect demanded of new houses because of increased cost up to approx. 10%. As per the Constitutional Amendment Bill placed in the Lok Sabha, it was proposed that all state government would be allowed to an additional 1% non-vatable tax on inter-state supply of goods for the initial two years, in order to compensate the states for loss of revenue while moving to GST. This was supported by a few states, while a few others criticized the same. The success of GST mainly depends upon major factor the Revenue Neutral Rate, is the rate at which there will be no revenue loss to the government after implementation of GST. These are some of the major challenges for the central and state government with the industry, ahead of the actual implementation of GST.

Other Issues:

1. Central government need to coordinate with all states for “input credit” due to transfer of credit in SGST.
2. State tax requires officials training and development before implementation of GST.
3. Effective credit mechanism between central and state government is essential for GST.

Effective implementation also requires for peoples who are directly and indirectly part of GST.

Conclusion

The GST System is basically structured to simplify current Indirect Tax system in India. A well designed GST is an attractive method to get rid of deformation of the existing process of multiple taxation also government has promised that GST will reduce the compliance burden at present there will be no distinction between imported and Indian goods & they would be taxed at the same rate. Many Indirect Taxes like Sales Tax, VAT etc., will be finished because there will be one tax system i.e. GST, that will reduce compliance present burden. GST will face many challenges after its implementation and will result to give many benefits. In overall through this study we conclude that GST plays a dynamic role in the growth and development of our country. All challenges in way of GST implementation as discussed above in paper.

References

1. Monika Sahrawi, Upasana Dhanda. GST in India: A key tax reform International Journal of Research – Granthaalayah. 2015; 3(12):133-141.
2. Sakhambari Murali, Avi Vani. Goods and Service Tax (GST) and its outcome in India. Journal of Madhya Pradesh Economic Association. 2017; 27:1. ISSN 2277-1123.
3. Shakir Shaik, Sameera SA, Firoz SKC. Does Goods and Services Tax (GST) Leads to Indian Economic Development?; IOSR Journal of Business and Management (IOSR-JBM). 2015; 17(12):Ver. III01-05.
4. Milandeep Kour, Kajal Chaudhary, Surjan Singh, Baljinder Kaur. A study on impact of gst after its implementation; International Journal of Innovative Studies in Sociology and Humanities. 2016; 1(2):17-24.
5. GST to hit Consumers, unorganized jobs, Sanjeev Sharma, The Tribune, 2016.
6. Ajit, the Tribune, 2016.

7. The Tribune, 2016.
8. www.ey.com>Home>Service>Tax
9. <http://www.quora.com>
10. Indianexpress.com>business>Economy.
11. M.economics.com
12. <http://hindustantimes.com>
13. <http://M.rediff.com>
14. www.relakhs.com
15. 11. www.mapsofindia.com
16. 12. www.gstindia.com
17. <http://en.m.wikipedia.org>.
18. www.top10wala.in/facts-about-gst-india-advantages/

