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GST –ProgressiveAnd Disruptive

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Abstract: *Goods and Services Tax (GST), the much heralded tax reform in India has great expectations on its beneficial impact on the economy. On July 1, 2017, Government of India finally rolled out GST, seventeen years after it was first proposed. With an objective of eliminating cascading effect of plethora of indirect taxes on goods and services, it is being seen as one the most important economic reforms in the country. More than 150 countries across the globe has adopted a system of single tax on consumption. Though it was met with initial teething problems, the outcome is mostly positive. Four months into GST, Indian businesses are yet to come in terms with the paradigm shift to a more transparent indirect tax system. Challenges w.r.t understanding the intricacies of the tax law, implementation issues, transition issues, rationale of some of the provisions are being raised. The authorities are fire fighting with amendments and revisions. This paper is an attempt to understand the architecture of GST, its challenges, and proposed benefits to the consumers and economy at large. The paper also looks at the indirect tax regime of some other countries and lessons for India.*
Keywords*: GST, Tax reform, Challenges for India, Global experience, Road ahead*

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I. INTRODUCTION

The main principles of any taxation law are equity, efficiency, simplicity and certainty. Taxes should augment government revenue and at the same time be accepted by the citizens for their simplicity and equity, (Roychoudhury, 2012). Goods and Services Tax (GST), the much heralded tax reform in India, has to satisfy the above principles so as to really meet the objective of a good tax system. On July 1, 2017, Government of India finally rolled out GST, seventeen years after it was first proposed. With an objective of eliminating cascading effect of plethora of indirect taxes on goods and services, it is being seen as one the most important economic reforms in the country. Prior to GST, manufacturing and sale of goods /services attracted different taxes like Central excise duty, VAT, Central Sales Tax, Service tax levied by both Central and State Government at various points in the distribution channel. A manufacturer pays excise on manufacturing, followed by sales tax/service tax at the point of sale of goods and services to consumers. Interstate sales attracted further taxes. Other taxes like octroi, entertainment tax etc. added to the final cost. Also the rules and rates differed from state to state. Multiplicity of taxes not only increased the final price of the goods and service but also created a web of complex rules and procedures. GST is expected to ease out the complications of multitude taxes with a uniform tax rate. Though it is a very positive step towards harmonisation of indirect taxes, country wide acceptance of GST in word as well as in spirit is awaited. This paper is an attempt to critically examine GST and also compare it with GST laws of other nations of the world.

1. Architecture of GST

1.1 Tax structure under GST

India has adopted a dual GST system. Centre and States would levy GST separately but concurrently. The tax is based on the principle of destination based taxation as against the previous origin based taxation. Five laws have been enacted CGST (Central GST) law, SGST (State GST) law, UTGST (Union Territories GST) law, IGST (Integrated GST) law and GST Compensation law. Under these laws, Centre and State would levy CGST and SGST respectively on every transfer within the State on the taxable value of goods. Union Territories would levy UTGST. Interstate sale of goods and imports would attract IGST which is equal to CGST plus SGST. Each seller can claim credit of the taxes paid under these laws. Four tax rates has been stated - 5%, 12%,18% and 28%. Rates of precious metals is subject to 3% tax and thus is an exception to Four Tax Slab rule. On certain luxury goods and demerit goods like tobacco and tobacco products, pan masala, aerated water, motor vehicles, a cess in addition to a peak rate of 28% is imposed. The Central Government is empowered to levy excise duty in addition to GST on tobacco and tobacco products. Tax payers with an annual turnover of less than Rs. 20 lacs(Rs. 10 lacs for special states) is exempt from GST. A composition scheme is available for small and new tax payers to reduce their tax burden and compliance costs. Manufacturers and traders with a turnover of less than Rs.1 crore is given the option of paying tax at a flat rate (2% for manufacturers and 1% for traders).

However they cannot claim input tax credit. Composition scheme is not available for service providers except restaurants. Exports and supplies to SEZ's and SEZ units are subject to zero rate tax. Education and healthcare is exempted from GST. The tax rates on petroleum products like crude oil, HSD, ATF, petrol and natural gas is not yet declared. All goods and services are grouped into 98 chapters based on Harmonised System of Nomenclature (HSN). Table 1 gives an illustrative list of various goods and services at different tax rates.

Table 1. Rate Structure

Zero percent rate	5%	12%	18%	28%
Jute, fresh meat, fish chicken, eggs, milk, butter milk, curd, natural honey, fresh fruits and vegetables, newspapers, Cereal grains hulled.	Apparel below Rs 1000, packaged food items, footwear below Rs 500, , coffee, tea, spices, pizza bread, rusk, sabudana, kerosene, coal, medicines, stent, lifeboats, Bio gas, Insulin, Branded food	Apparel above Rs 1000, frozen meat products , butter, cheese, ghee, dry fruits in packaged form, fruit juices, Ayurvedic medicines, tooth powder, , diagnostic kits and reagents, Exercise books and note books, etc	Footwear costing more than Rs 500, Trademarks, goodwill, software, , Biscuits, cornflakes, pastries and cakes, preserved vegetables, instant food mixes, mineral water, steel products, printed circuits, camera, speakers,	Bidis, chewing gum, molasses, chocolate not containing cocoa, waffles and wafers coated with chocolate, pan masala, aerated water, paint, deodorants, weighing machine, washing machine, ATM, vending machines, automobiles, motorcycles, aircraft for personal use
Hotels and lodges with tariff below Rs 1,000	Transport services (Railways, air transport), small restaurants will be under the 5% category	State-run lotteries, Non-AC hotels, business class air ticket, fertilisers, Work Contracts	AC hotels that serve liquor, telecom services, IT services, branded garments Restaurants inside five-star hotels	Private-run lotteries authorised by the states, hotels with room tariffs above Rs 7,500, 5-star hotels, race club betting, cinema

source:https://economictimes.indiatimes.com/news/economy/policy/a-quick-guide-to-india-gst-rates-in-2017/articleshow/58743715.cms

2.2. GST Council

GST council has been set up as a joint forum of the Central Government and State Government. The Chairman of the council is the Union Finance Minister. Members comprise of Union Minister of State for Revenue and Taxation and Ministers in charge of finance or taxation nominated by the States.The role of the council would be to guide the states and union territories on matters related to goods and services to be subject to GST/exempted from GST, rates, exemption limits, special provisions for some states etc.1/3 of the weightage of total voting is of Central Government and 2/3 of the weightage of the total voting would be of State Government.

2.3. GST Network (GSTN)

GST follows the principle of minimum personal interaction between tax administration and businesses, (Ghosh,2017). For this GST network (GSTN) is developed. GSTN is a non-profit private company promoted by Central and State Government to provide IT infrastructure and services for ensuring smooth implementation of GST across the country including the software to be used to file returns. The IT system enables the existing tax payers to migrate to the new system connecting scores of taxpayers with the administrative machinery. It is being termed as the IT backbone of GST. Since more than 15 laws have been absorbed into GST, hitherto untaxed assesses like SSI units, healthcare, entertainment industry, education would be brought into the new tax regime.

2.4. Control and Administration

Administration and control of GST are distributed between the Centre and the State in a pre-determined ratio. 90% of assesses with a turnover of less than Rs.1.50 crores would be administered by the State and the remaining 10% by the Centre. All assesses having turnover of more than Rs.1.50 crores would be administered and controlled by Centre and State in equal proportions i.e. 50% each. It is also declared that, in view of the above division, no assesse would be controlled by two authorities. The computer program at both Centre and State would ensure the same. The same rules would be applicable to assesses paying IGST on interstate movement of goods and services. It is further declared that coastal states can collect revenue from any economic activity in territorial waters extending to 12 nautical miles.

2.Critical Evaluation

3.1 Merits of GST

GST is expected to simplify and rationalise the indirect tax regime and put India on a high growth trajectory, (Ghosh, 2017). The following merits can be attributed to GST:

(i) Rationalisation of issues related to defining sales, transfers, manufacture, service etc. Existing laws had different definitions for the above transactions. A single tax law will bring in uniformity and clarity.
(ii) Each State in India had different tax rules and regulations. GST would enable convergence of different tax laws into one single tax law. A simplified tax machinery will lead to more compliance and tax revenues.
(iii) Cumbersome administrative procedure is expected to be simplified by each assesse being controlled by one single authority.
(iv) Eliminating the cascading effects of taxation will make the prices of goods and services competitive.
(v) Actionable claims, intangible assets, e-payment instruments and e-commerce transactions which were hitherto untaxed due to absence of clear laws have been brought into GST. Thus a new set of tax payers would be initiated into the tax network thereby increasing the revenue for the government.
(vi) GST is seen globally as a means of fiscal consolidation expected to reduce fiscal deficit.

3.2 Challenges in GST implementation

(i) There has been not much gestation period between finalising the law and implementing the same. Hence businesses are still grappling with the new provisions. Entire value chain i.e. sourcing, manufacturing, warehousing, distribution, sales is expected to be integrated with their IT system so as to ensure compliance.
(ii) Some provisions in GST laws is yet to be finalised. Petroleum products are not rated. The provisions w.r.t e-way bill and anti-profiteering are unclear.
(iii) Though GST is proposed to usher in a single tax regime in Indirect taxes, currently four rates of GST is introduced viz. 5%, 12%, 18% and 28% with separate rates for gems and jewellery. The rates on 'sin goods' like petroleum products is yet to be finalised. This makes it a 'five rates' tax system.
(iv) Small manufacturers with a turnover of less than 1.5 crores were exempted from excise in the erstwhile Excise law. However the threshold limit under GST is Rs.20 lacs. This will increase the tax burden for many small businesses.
(v) Compliance under GST has become cumbersome. Businesses operating in more than one state has to register in all states where they are operating. Also monthly of monthly returns is proving taxing for most assesses. On an average 37 returns are to be filed by an assessee (3 returns per month and an annual return).
(vi) Companies will have to incorporate GST provisions in their Accounting packages / ERP to ensure proper recording of transactions and calculation of taxes. Also to avail tax credit every invoice of sales and purchase has to be entered into GST system. Many small businesses have standalone or manual accounting and taxation systems whereas GST requires more real-time online updation of transactions.This up gradation will affect operating margins. Indian Banks Association has admitted its unpreparedness for GST.
(vii) The success of Value Added Tax system lies in the timeliness with which input tax credit/ refund is made available. Under GST input tax credit of the seller is matched with the return filed by the supplier to release input credit. Any mismatch on account of error in filing returns, delay in filing return or non-filing of return would lead to non-availability of timely input credit to the seller increasing the burden on working capital. The technological backbone of GST has to ensure real time settlement of transactions to ensure seamless flow of taxes and refunds
(viii) Manufacturers in many sectors like textiles, pharmaceuticals enjoy tax holidays under the erstwhile laws.There is no notification of these benefits under GST.
(ix) GST being implemented three months into the financial year will lead to transitional problems. Carry forward of existing set offs and migrating to new system will create confusion and compliance issues.
(x) Petroleum products have not yet been brought into GST tax system. Hence businesses using petroleum products as raw materials will not get input credit which will lead to an increase in final products.
(xi) Introduction of GST in has led to inflation in many countries where it was adopted. Anti-profiteering mechanism and control on retail prices counters the same. However concrete anti-inflationary measures is not yet in place.
(xii) Manpower training is required on urgent basis to adopt and adapt to GST. This will increase the operating costs of business.

4.GST – Global Experience and Lessons for India

France was the first country to adopt GST in 1954. Many other countries followed suit like Canada, UK, Germany, Singapore, China, Australia, South Korea, Japan, and Malaysia. Today GST is implemented in around 160 countries across the globe. Canada follows the dual system with a Federal GST of 5% and States levyingHarmonised Sale Tax (HST). The highest rate is 13%. Australia has a composite tax of 10% on most of the goods and services sold in Australia. Most food items, educational services, health care, childcare is exempt from tax. Even domestic and international passenger transport and construction of residential buildings attracts no taxes. The indirect tax system in UK comprises of VAT and excise duty. However excise duty is limited to few commodities. The highest VAT rate is 20% with reduced rates to 5%. VAT credit is available to all registered dealers. In European Union, VAT is the consumption tax on goods and services consumes in the community. Standard rate is 15% with a reduced rate of 5%. Export of goods and services is not taxed. Japan has a standard GST of 8% proposed to be increased to 10% in 2019. Saudi Arabia has no tax on consumption. Singapore levies a standard 7% GST. Switzerland has a standard GST of 7% with a reduced rate of 4% for hotel accommodation. Malaysia was the latest entrant to GST countries. Its standard GST rate is 6% applicable on all goods and services supplied in Malaysia.India with its four tax slab has one of the highest rate of GST at 28%. Its standard rate of 18% is also higher than the GST rates levied by most of the countries.

Every country which has introduced GST in the past has experienced teething troubles. Countries like Canada, Singapore, Japan, and Australiasaw increase in inflation on introduction of GST in their countries. Price controls was imposed to combat the same. Although it is claimed that India may not witness a surge in inflation as most of the services are not a part of Consumer Price Index basket. It is imperative for India also to foresee inflationary effects on the economy and have an anti-inflation mechanism in place. 50% of the goods fall in 18% GST slab was earlier subject to around 25% of taxes by way of excise duty, VAT and other indirect taxes. Hence the prices of these goods will fall. Though anti-profiteering measures have been incorporated in GST laws to ensure that the reduction in taxes is passed on to consumers, its implementation seems difficult. Services are going to be affected as they move to a higher tax bracket of 18% under GST from a 15% tax under erstwhile Service tax laws. However they can avail input tax credit. Services like banking, insurance, and telecommunications will witness an increase in compliance costs due to multi state registration provision under GST. This will increase the overall cost of such services. Petroleum products and alcohol are not yet covered under GST. Hence business using these products as raw materials will be able to avail tax credit leading to an increase in costs. Prices of food and beverages, comprising almost 50% of consumer Price Index basket, is expected to decrease. Housing, comprising 10% of the CPI basket, is exempted form GST. Hence only a marginal increase in inflation is expected in the short run. In the long run efficiency gains, supply chain rationalisation will push inflation downwards. Governments of various countries have observed that adequate time and proper guidance should be given to business community to understand and implement GST. Businesses have to undergo a radical change in systems and processes to adapt to GST. Malaysia witnessed nationwide protests in spite of around 1.5 years given for preparation. Indian business community have not got adequate time for preparation for transition to a new tax regime. Also the implementation was mandated three months into the financial year. The authorities have to provide guidance and training on war footing so that the transition is smooth and seamless. Most of the countries started with a low GST rate gradually progressing to a higher rates over a period of many years. Small businesses have to be protected on account of their low financial resources. Composition scheme under GST is one such measure. However the threshold limit for turnover is very low at Rs. 20 lakhs. This leads to absence of tax differentiation between small and large businesses thereby affecting the profitability of small businesses. Compared to other countries, India has a very low tax exemption limit.

II. CONCLUSION

A common rate of tax acknowledges inability to estimate optimal tax rates whereas differential tax rates add to compliance cost, (Benge et al, 2013). A balance between rationalisation and equity in tax laws brings acceptance and compliance. Consolidation of indirect taxes into one single tax was one of the most challenging tax reform implemented by Indian Government. It is expected to benefit a growing economy like India and strengthen its place in global market. A uniform tax law will create a seamless nationwide market, (Kumari and Jyothi,2017). Businesses would become more organised to avail the benefits of reduced tax rates. Value chain efficiency would improve and significant savings are envisaged in logistics and distribution. Increased revenues for Government, reduced tax burden for consumers, increase in exports, increase in FDI flow thereby reducing fiscal deficit are some of the benefits envisaged by the implementation of GST. Though the challenges are many, the benefits surely outweighs them. The GST council in their meeting held on 10th November, 2017 has further eased the norms. Relief in GST return compliance, reduction in tax rates of many goods, increase in threshold limit of Composition scheme has been announced.Thus the authorities are continuously reviewing the impact of implementation of GST and are amending provisions to iron out the challenges. In days to come, GST would surely bring out the expected results. As experienced by countries across the globe, India is poised to reap the benefits of simplified tax law.

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