Goods and Service Tax in India

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Abstract: *Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1 July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Bill. The GST is governed by a GST Council and its Chairman is the Finance Minister of India. Under GST, goods and services are taxed at the following rates, 0%, 5%, 12%, 18% and 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 15% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. GST was initially proposed to replace a slew of indirect taxes with a unified tax and was therefore set to dramatically reshape the country's 2 trillion dollar economy. The rate of GST in India is between double to four times that levied in other countries like Singapore.*
Keywords: *Goods and Service, Tax, Indirect Tax, MODVAT, VAT, GSTN*

I. INTRODUCTION

GST Tax is perceived as the replacement of all indirect tax levied currently on the goods and services around the nation. It is basically an indirect taxation that will feature a single domain of tax levy at the national level. The Goods and Services Tax was launched at midnight on 1 July 2017 by the President of India Pranab Mukherjee and Prime Minister of India, Narendra Modi. The launch was marked by a historic midnight (1 July 2 July) session of both the houses of parliament convened at the Central Hall of the Parliament. Though the session was attended by high-profile guests from the business and the entertainment industry including Ratan Tata, it was boycotted by the opposition due to the predicted problems that it was bound to lead to for the middle and lower class Indians. It is one of the few midnight sessions that have been held by the parliament - the others being the declaration of India's independence on 15 August 1947, and the silver and golden jubilees of that occasion. Members of the Congress boycotted the GST launch altogether. They were joined by members of the Trinamool Congress, Communist Parties of India and the DMK. These parties reported that they found virtually no difference between the GST and the existing taxation system, claiming that the government was trying to merely rebrand the current taxation system. They also argued that the GST would increase existing rates on common daily goods while reducing rates on luxury items, and affect many Indians adversely, especially the middle, lower middle and poorer classes.

Objectives

The following are the objectives of the study;

1. To study the History of Goods and Service Tax.
2. To study the Taxation scheme of Goods and Service Tax.
3. To study the Goods and Service Tax Network.
4. To study the features of GST.
5. To study the Advantages of Goods and Service Tax.
6. To study the Disadvantages of Goods and Service Tax.

The History of Goods and Service Tax

The reform process of India's indirect tax regime was started in 1986 by Vishwanath Pratap Singh, Finance Minister in Rajiv Gandhi�s government, with the introduction of the Modified Value Added Tax (MODVAT). Subsequently, Manmohan Singh, then Finance Minister under of P V Narasimha Rao, initiated early discussions on a Value Added Tax at the state level. A single common "Goods and Services Tax (GST)" was proposed and given a go-ahead in 1999 during a meeting between then Prime Minister Atal Bihari Vajpayee and his economic advisory panel, which included three former RBI governors IG Patel, Bimal Jalan and C Rangarajan. Vajpayee set up a committee headed by the then finance minister of West Bengal, Asim Dasgupta to design a GST model.

The Ravi Dasgupta committee was also tasked with putting in place the backend technology and logistics (later came to be known as the GST Network, or GSTN, in 2017) for rolling out a uniform taxation regime in the country. In 2002, the Vajpayee government formed a task force under Vijay Kelkar to recommend tax reforms. In 2005, the Kelkar committee recommended rolling out GST as suggested by the 12th Finance Commission.

After the fall of the BJP-led NDA government in 2004, and the election of a Congress-led UPA government, the new Finance Minister P Chidambaram in February 2006 continued work on the same and proposed a GST rollout by 1 April 2010. However in 2010, with the Trinamool Congress routing CPI (M) out of power in West Bengal, Asim Dasgupta resigned as the head of the GST committee. Dasgupta admitted in an interview that 80% of the task had been done.

In 2014, the NDA government was re-elected into power, this time under the leadership of Narendra Modi. With the consequential dissolution of the 15th Lok Sabha, the GST Bill approved by the standing committee for reintroduction lapsed. Seven months after the formation of the Modi government, the new Finance Minister Arun Jaitley introduced the GST Bill in the Lok Sabha, where the BJP had a majority. In February 2015, Jaitley set another deadline of 1 April 2016 to implement GST. In May 2016, the Lok Sabha passed the Constitution Amendment Bill, paving way for GST. However, the Opposition, led by the Congress demanded that the GST Bill be again sent back to the Select Committee of the Rajya Sabha due to disagreements on several statements in the Bill relating to taxation. Finally in August 2016, the Amendment Bill was passed. Over the next 15 to 20 days, 18 states ratified the GST Bill and the President Pranab Mukherjee gave his assent to it.

A 21-members select committee was formed to look into the proposed GST laws.State and Union Territory GST laws were passed by all the states and Union Territories of India except Jammu & Kashmir, paving the way for smooth rollout of the tax from 1 July 2017.] There was to be no GST on the sale and purchase of securities. That continues to be governed by Securities Transaction Tax (STT).

II. THE TAXATION SCHEME OF GOODS AND SERVICE TAX

The single GST replaced several former taxes and levies which included: central excise duty, services tax, additional customs duty, surcharges, state-level value added tax and Octroi. Other levies which were applicable on inter-state transportation of goods have also been done away with in GST regime.GST is levied on all transactions such as sale, transfer, purchase, barter, lease, or import of goods and/or services. India adopted a dual GST model, meaning that taxation is administered by both the Union and State Governments. Transactions made within a single state are levied with Central GST (CGST) by the Central Government and State GST (SGST) by the State governments. For inter-state transactions and imported goods or services, an Integrated GST (IGST) is levied by the Central Government. GST is a consumption-based tax, therefore, taxes are paid to the state where the goods or services are consumed not the state in which they were produced. IGST complicates tax collection for State Governments by disabling them from collecting the tax owed to them directly from the Central Government. Under the previous system, a state would only have to deal with a single government in order to collect tax revenue.

HSN (Harmonized System of Nomenclature) is a 6-digit code for identifying the applicable rate of GST on different products as per CGST rules. If a company has turnover upto RS. 1.5 Crore in preceding financial year then they need not to mention HSN code while supplying goods on invoices, if a company has turnover more than 1.5 Cr but up to 5 Cr then they need to mention 2 digit HSN code while supplying goods on invoices and if turnover cross 5 Cr then they shall mention 4 digit HSN code on invoices.

The GST is imposed at different rates on different items. The rate of GST is 18% for soaps and 28% on washing detergents. GST on movie tickets is based on slabs, with 18% GST for tickets that cost less than Rs. 100 and 28% GST on tickets costing more than Rs.100.[23] The rate on under-construction property booking is 12%.Some industries and products were exempted by the government and remain untaxed under GST, such as dairy products, products of milling industries, fresh vegetables & fruits, meat products, and other groceries and necessities

The introduction of the GST increased the costs of most consumer goods and services in India including food, hotel charges, insurance and cinema tickets. Upon its introduction in the country, GST led to a number of protests by the business community, primarily due to an increase in overall taxes and hence the prices of goods. Check posts across the country were abolished ensuring free and fast movement of goods.

The Central Government had proposed to insulate the revenues of the States from the impact of GST, with the expectation that in due course, GST will be levied on petroleum and petroleum products. The central government had assured states of compensation for any revenue loss incurred by them from the date of GST for a period of five years. However, no concrete laws have yet been made to support such action.

Goods and Services Tax Network (GSTN)

As per the government website on GST, "Goods and Services Tax" Network (GSTN) is a non-profit organisation proposed to be formed for creating a website / platform for all the concerned parties related to the GST, namely stakeholders, government and taxpayers to collaborate on a single portal. When up and running, the portal is supposed to be accessible to the central government which allows it to track down every transaction on its end while taxpayers are advertised to have the ability of connecting this to their tax returns. However its efficacy and efficiency is yet to be tested. The IT network was touted to be developed by unnamed private firms. The known authorised capital of GSTN is 10 crore (US$1.6 million) in which Central Government holds 24.5 percent of shares while the state government holds 24.5 percent and rest with private banking firms for smooth running of the transactions.

Important features of GST are

- GST is a value added tax, levied at all stages of the supply chain, right from manufacture to final consumption, where credit shall be allowed for taxes paid at previous steps as set-off.
- GST would be applicable on the supply of goods or services, as against the present concept of tax on the manufacture and sale of goods or provision of services.
- GST would be a destination based consumption tax ie, tax would accrue to the taxing authority which has jurisdiction on place of consumption. GST would apply to both goods and services barring a few exceptions.
- GST would be levied concurrently by both Centre and State.
- GST to be levied by the Centre on intra-State supply of goods and / or services would be called the Central GST (CGST) and that to be levied by the States would be called the State GST (SGST).

Advantages of GST: The following are the Advantages of GST

1. Simplicity at its Best: Goods and Service Tax (GST) will replace the existing form of indirect tax in the nation. It will prove a substitute for the 17 indirect laws pertaining to the nation and will besides it with the new GST Tax. That shall come across as a simpler term to envision.
2. Boosting of Revenue: Think of it, with the new GST in the nation, there won't be more of an evasion as what is happening with the current tax laws. Such simpler term of taxation will make more suppliers in a mood to pay the tax amount which in turn marks the boost in revenue levels.
3. Lesser cost of Logistics and Inventory: As the GST tax will mark the end of 17 other indirect laws, there won't be much of logistics and inventory costs as of now. Also, the slow movement across the state levels of goods carrier will be stopped with the transit speed increasing tenfold. As per one of the surveys conducted recently, it has been estimated that the Indians will be able to save almost about Rs 2300 crore which is spent at the various check post at the border of the state.
4. Quite an Investment Boost: As is the norm with the current tax laws in India, there isn't any input on capital goods. But with the new GST Tax laws, one can avail input tax credit on the capital goods. That way, the investment might surge up quite a bit with an expected 6% increase.
5. Lift for the Lesser Developed States: The normal rules stay put as the 2% interstate-levy with the major chunk of production kept within the state itself. However, with the change in rules, the tax amount can be dispersed across the nation to offer a greater lift for the lesser-developed
6. Standardization: Many countries follow a GST Tax regime and the new tax will make it easy for everyone to understand the bill. People have already started verifying the bills at restaurants and other retail outlets for the right tax. Earlier, there were many cases of people being charged inappropriately and this has ended with GST.
7. Transparency and Less Corruption: GST will also lead to less corruption and there will be a significant reduction in corruption as all the money spent needs to be reported for the taxation purpose. Moreover, the retailer would not be able to make sales without the bill hence the cases of income tax evasion will also reduce a lot.
8. Cheaper cars and Phones: this advantage is totally for the consumers who are planning to buy car or phones. The overall tax rate has been reduced by at least 2 percent and the car prices of most of the cars have been reduced. Another such impact is on phones and Apple recently reduced the phone of the price by as much as 7.5%.
9. Boost to GDP: In one of the studies conducted by HSBC, the GST would have a positive impact on GDP of the country and the GDP of the country will increase by at least 80bps which translate to 0.80%. This is surely a great help to the targets set by Modi Government.

Disadvantages of GST Tax: The following are the disadvantages of GST

1. Would impact the Real-Estate Market: GST Tax would swell negative remarks on the real-estate as perceived, GST will increase the cost of the new homes by 8% which in turn will cease the demand by 12%.
2. Old Wine in a New Bottle: According to the experts, terms such as GST which includes CGST, SGST, and IGST is nothing but just a new name in accordance with the existing tax systems. Kind of old wine in a new bottle.
3. Costlier Service: The current Service Tax stands at 15% as of now which will increase to 18%-20% when GST is levied. As such many services will be on the costlier side with telecom, airline and banking affected majorly. In fact, insurance and petroleum are also said to be majorly affected by the enactment of GST Tax.
4. Complexity for the Businessmen: According to the proposal of the GST Tax, the control on business will be rendered to Central and State Governments with businessmen binding by-laws. As such complexity may arise for many businessmen across the nation.

5. Income Tax Credit Mismatch: As the change in tax guard will take place, the first few instances of application would mean high tax paying at the start. That said, they will only be able to exercise the tax input on the latter stages when the loop is exercised. With that in place, there would be ITC mismatch during the early uses of GST Tax.
6. Disability Tax: Opposition has called it as a Disability Tax as many of the things related to disabled people which were earlier Tax-Free are now included in GST Taxation. Prior to implementation of GST, brail paper, typewriter, hearing aid and motorized wheelchair were tax-free whereas these things are being taxed now. Opposition have made pleas to roll back the tax on such items
7. Expensive Banking and Insurance: On one end, Modi government is trying to give a push to banking services and insurance in India and on another side of the picture, the government has decided to tax banking and insurance service at higher rates when compared to the previous rates
8. Impact on Discounts: GST has also had an impact on discount and reward programs as well. The product is being taxed on the rates pre-discount whereas the products were earlier taxed at post discount prices. Most of the companies have also suspended reward programs for temporary basis because of complexities of GST.
9. Registration in the Many States Required: As per GST, the seller would require registering in all the states that it does business in and that would increase the complexity for the seller. The government should have created a provision for centralized registration of State GST as this would have helped many sellers during the roll out.

III. CHALLENGES THAT BUSINESSES NEED TO OVERCOME UNDER GST REGIME

GST, the greatest tax reform since Independence, present challenges for businesses across the country. Like everything else, all is not smooth sailing for GST and there are some obvious challenges for businesses and end consumers which we will discuss in detail here.

1. Change in Business Software: Most businesses use accounting software or ERPs for filing tax returns which have excise, VAT, and service tax already incorporated in them. The transition to GST will require businesses to change their ERPs, too; either by upgrading the software or by purchasing new GST-compliant software. This will lead to increased costs of buying new software and training employees on how to use it.

   ClearTax is the first company in India to launch ready-to-use GST software. It is currently available at reduced prices for SMEs, to help them to transit to GST to smoothly. To ease the pain of the people, it doesn′t require you to update the existing software and provide free services for first 3 months.
2. GST Compliance: SMEs are still not completely aware of the nuances of the new tax regime. Changing over to a completely new system of taxation requires understanding of the minutiae, which businesses lack right now. Most of them are worried about filing timely returns, but it is important to note that even before businesses can reach the filing stage they have to issue GST-compliant invoices. For a traditionally pen-and-paper economy like India, this change to digital record-keeping is going to be massive. Invoices after 1st July will need to be GST-compliant with all details such as GSTIN, place of supply, HSN code etc. as mandated by the law.
3. Increase in Operating Costs: Most small businesses in India do not employ tax professionals, and have traditionally preferred to pay taxes and file returns on their own to save costs. However, they will require professional assistance to become GST compliant as it is a completely new system. While this will benefit the professionals, the small businesses will have to bear the additional cost of hiring experts. Also, businesses will need to train their employees in GST compliance, further increasing their overhead expenses.
4. Policy Change during the Middle of the Year: GST will go live three months into the financial year 2017-18. So, for FY 2017-18, business will follow the old tax structure for the first 3 months, and GST for the rest of the time. It is impossible to cross over from one tax structure to the other in just a day, and hence businesses will end up running both tax systems in parallel, which might result in confusion and compliance issues.
5. Online Procedure: GST compliance, return filing and payments all have to be done online. Many small businesses are not tech-savvy and do not have the resources for fully computerized compliance. Even as the rest of the nation gets ready to go digital, businesses in small cities across India face a huge technology problem in the days ahead. Cloud-based software like the ClearTax GST software could be an answer to this problem. This does not require any downloads, and the process for return filing on ClearTax GST is very simple. Business owners need only upload their invoices, and the software will populate the return forms automatically with the information from the invoices. Any errors in invoices will be clearly identified by the software in real-time thus increasing efficiency and timeliness.

6. Higher Tax Burden for Manufacturing SMEs: Small businesses in the manufacturing sector will not have it easy in the GST regime. Under the excise laws, only manufacturing business with a turnover exceeding Rs. 1.50 crores had to pay excise duty. Whereas, under GST the turnover limit has been reduced to Rs. 20 lakh, thus increasing the tax burden for many manufacturing SMEs. However, SMEs with a turnover of upto 75 lakhs can opt for the composition scheme and pay only 1% tax on turnover in lieu of GST and enjoy lesser compliances. The catch though is these businesses will then not be able to claim any input tax credit. The decision to choose between higher taxes or the composition scheme (and thereby no ITC) will be a tough one for many SMEs.
7. No Clarity on Tax Holidays: Many manufacturers (textile, pharmaceutical, FMCG industries) enjoy tax holidays and state benefit schemes. There is still no notification regarding these benefits. This will mean increased costs for these industries, which will probably be passed on to the end consumers.
8. Disruption to Business: Cloth merchants (unorganized) are going on strike to protest against GST. Eateries and drug shops in Chennai are also threatening to protest the regime change and this is only the tip of the iceberg. In the coming days, we can expect to see more of these protests happening across the country and these will undoubtedly disrupt business. If there is any solace, it is in knowing that other countries who implemented GST never had it easy either. Malaysia recently introduced GST in 2014 and faced nationwide strikes and protests. How the Indian government will handle these events is left to be seen.

IV. CONCLUSION

The government is trying to reduce the burden of compliance for businesses by relaxing the return filing requirements for the first two months post implementation. Also, the provisions of TCS on e-commerce and registration for online sellers have also been relaxed for the time being. Change is definitely never easy. The government is trying to smoothen the road to GST. It is important to take a leaf from global economies that have implemented GST before us, and who overcame the teething troubles to experience the advantages of having a unified tax system and easy input credits. Once GST is implemented, most of the current challenges of this move will be a story of the past. India will become a single market where goods can move freely and there will lesser compliances to deal with for businesses. The benefits of GST will definitely outweigh the disadvantages of GST.

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