



IMPLEMENTATION OF GST IN INDIA: A REVIEW

Tara Jayant¹

Abstract- Goods and Services Tax (GST) is an indirect tax which was introduced in India on 1st July 2017 and was applicable throughout India which replaced multiple cascading taxes levied by the central and state governments. GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. GST replaced a slew of indirect taxes with a unified tax and is therefore set to dramatically reshape the country's 2 trillion dollar economy.

Keywords- GST, TAX, CENVAT, Service TAX, CST, CVD, SAD, VAT, CESS.

1. INTRODUCTION TO GST

The GST system was first introduced in France in the year 1954 and now nearly 150 countries are following the system. In India the idea to introduce the GST was mooted in the year 2000 and Government appointed various committees and task force to study the impact of GST [3]. The idea of moving towards GST was first mooted by the then Union Finance Minister in his Budget speech for 2006-07. Initially, it was proposed that GST would be introduced from 1st April 2010. The Empowered Committee of State Finance Ministers (EC) which had formulated the design of State VAT was requested to come up with a roadmap and structure for GST. Joint Working Groups of officials having representatives of the States as well as the Centre were set up to examine various aspects of GST and draw up reports specifically on exemptions and thresholds, taxation of services and taxation of inter-State supplies. Based on discussions within and between it and the Central Government, the EC released its First Discussion Paper (FDP) on the GST in November, 2009 [1]. GST is one indirect tax for the whole nation, which will make India one unified common market. GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer. It was introduced as The Constitution (One Hundred and First Amendment) Act 2017, following the passage of Constitution 122nd Amendment Act Bill [4]. 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 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with setoff benefits at all the previous stages [2].

2. CONSTITUTIONAL AMENDMENT ACT FOR GST

The One Hundred and First Amendment of the Constitution of India, officially known as “The Constitution (One Hundred and First Amendment) Act, 2016”, introduced a national Goods and Services Tax in India from 1 April 2017. The GST is a Value added Tax (VAT) 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 will replace all indirect taxes levied on goods and services by the IGST are a single tax on the supply of goods and services, right from the manufacturer to the consumer [4].

3. INDIA'S CURRENT TAX SYSTEM

Presently, India's tax system comprises a multitude of indirect taxes, applied at the central (federal) and state levels as given below [8].

3.1 Central Taxes

- i. Central Value Added Tax (CENVAT) or Central Excise duty - 12.36%
Tax levied on the production of manufacturing goods.
- ii. Service Tax - 15%
Tax levied on provided services.
- iii. Central Sales Tax (CST) - 2%
Tax on cross- state trade.
- iv. Countervailing Duties (CVD) - 12.36%

¹ Department of Zoology, Govt. P.G. College for Women, Panchkula, Haryana, INDIA

Additional import duty on imported goods which are brought in India in order to level the playing field between domestic and foreign producers. Additional CVDs might be applied to offset the effect of concessions and subsidies granted by an exporting country to its exporters.

- v. Special Additional Duty of Customs (SAD) - 4%
Additional import duty to counterbalance the sales or value added tax payable by local manufacturers.

3.2 State Taxes

- i. Value Added Tax (VAT) - 10% to 14.5%
Tax levied on the production of manufacturing goods.
- ii. Sales Tax - 0% to 15%
Additional tax levied on the production of manufacturing goods. It was replaced in most states by VAT, but not all.
- iii. Entry Tax - 0% to 12.5%
Tax on the entry of goods for consumption, use or sale in that state.
- iv. Luxury Tax - 3% to 20%
Tax on luxury goods and services that include hotels, resorts and congregational halls used for weddings, conferences etc.
- v. Entertainment Tax - 15% to 50%
Tax on feature films, major commercial shows and private festivals.

3.3 Dual Gst Model

Dual GST means, the proposed model will have two part called

- i. CGST – Central goods and service tax for levied by central Govt.
- ii. SGST – State goods and service tax levied by state Govt. There would have multiple statute one CGST statute and SGST statute for every state [2].

4. TAX SYSTEM UNDER GST IN INDIA

- i. The proposed Taxes of the Centre to be subsumed in GST are:
 - CENVAT
 - Service Tax
 - All central surcharges & cess
 - Custom duty
 - Excise duty
- ii. The proposed Taxes of the States to be subsumed in GST are:
 - VAT
 - Entertainment tax,
 - Entry tax
 - Luxury tax
 - Taxes on Betting, Gambling and Lottery
 - All State surcharges and cess

Since both CENVAT and VAT as well as service tax will lose their independent identity, GST shall be in the nature of a dual tax imposed by the centre and state depending upon the jurisdiction but revenues shared in an agreed proportion so that centre's share goes into central goods and service tax account (CGST A/c) and state share goes into state goods and service tax account (SGST A/c). The tax rates would be at 4 slabs of 5%, 12%, 18% and 28%.Luxury and demerit goods will be taxed at 28% plus cess. As GST would be on final Consumption, there shall be no tax at the manufacturing stage which itself would reduce the cascading burden of indirect taxes on final consumers [5].

5. BENEFITS OF GST

As per the studies of Garg and Gupta (2017) [5], the applicability of GST may lead to following advantages in India:

- i. GST provide comprehensive and wider coverage of input credit setoff, you can use service tax credit for the payment of tax on sale of goods etc.
- ii. Consumer needs to pay single tax i.e GST instead of all other indirect taxes.
- iii. Uniformity of tax rates across all states
- iv. By reducing the tax burden the competitiveness of Indian products in international market is expected to increase and there by development of the nation.
- v. As the benefits of less tax burden would be passed on to the consumer prices of goods are expected to reduce in the long run.
- vi. GST would result in higher GDP which may lead to higher Tax revenues (higher tax GDP ratio) which will bring down fiscal deficit to half its size and revenue deficit to zero.

6. SAILENT FEATURES OF GST

The salient features of GST are as under [1]:

- i. GST is applicable on 'supply' of goods or services as against the present concept on the manufacture of goods or on sale of goods or on provision of services.
- ii. GST is based on the principle of destination-based consumption taxation as against the present principle of origin-based taxation.
- iii. It is a dual GST with the Centre and the States simultaneously levying tax on a common base. GST to be levied by the Centre would be called Central GST (CGST) and that to be levied by the States would be called State GST (SGST).
- iv. An Integrated GST (IGST) would be levied on inter-state supply (including stock transfers) of goods or services. This shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by Law on the recommendation of the GST Council.
- v. Import of goods or services would be treated as inter-state supplies and would be subject to IGST in addition to the applicable customs duties.
- vi. CGST, SGST & IGST would be levied at rates to be mutually agreed upon by the Centre and the States. The rates would be notified on the recommendation of the GST Council. In a recent meeting, the GST Council has decided that GST would be levied at four rates viz. 5%, 12%, 16% and 28%. The schedule or list of items that would fall under each of these slabs has been worked out. In addition to these rates, a cess would be imposed on "demerit" goods to raise resources for providing compensation to States as States may lose revenue owing to the implementation of GST.
- vii. GST would replace the following taxes currently levied and collected by the Centre:-
 - Central Excise Duty
 - Duties of Excise (Medicinal and Toilet Preparations)
 - Additional Duties of Excise (Goods of Special Importance)
 - Additional Duties of Excise (Textiles and Textile Products)
 - Additional Duties of Customs (commonly known as CVD)
 - Special Additional Duty of Customs(SAD)
 - Service Tax
 - Cesses and surcharge in so far as they relate to supply of goods and services.
- viii. State taxes that would be subsumed within the GST are:-
 - State VAT
 - Central Sales Tax
 - Purchase Tax
 - Luxury Tax
 - Entry Tax (All forms)
 - Entertainment Tax and Amusement Tax (except those levied by the local bodies)
 - Taxes on advertisements
 - Taxes on lotteries, betting and gambling
 - State cesses and surcharges in so far as they relate to supply of goods and services.
- ix. GST would apply on all goods and services except Alcohol for human consumption.
- x. GST on five specified petroleum products (Crude, Petrol, Diesel, ATF & Natural Gas) would be applicable from a date to be recommended by the GSTC.
- xi. Tobacco and tobacco products would be subject to GST. In addition, the Centre would have the power to levy Central Excise duty on these products.
- xii. A common threshold exemption would apply to both CGST and SGST. Tax payers with an annual turnover not exceeding Rs.20 Lakh (Rs.10 Lakh for special category States) would be exempt from GST. For small taxpayers with an aggregate turnover in a financial year up to 50 Lakhs, a composition scheme is available. Under the scheme a taxpayer shall pay tax as a percentage of his turnover in a State during the year without benefit of Input Tax Credit. This scheme will be optional.
- xiii. The list of exempted goods and services would be kept to a minimum and it would be harmonized for the Centre and the States as well as across States as far as possible.
- xiv. Exports would be zero-rated supplies. Thus, goods or services that are exported would not suffer input taxes or taxes on finished products.
- xv. Credit of CGST paid on inputs may be used only for paying CGST on the output and the credit of SGST paid on inputs may be used only for paying SGST. Input Tax Credit (ITC) of CGST cannot be used for payment of SGST and vice versa. In other words, the two streams of Input Tax Credit (ITC) cannot be cross-utilized, except in specified circumstances of inter-state supplies for payment of IGST. The credit would be permitted to be utilized in the following manner:-
 - ITC of CGST allowed for payment of CGST & IGST in that order;

- ITC of SGST allowed for payment of SGST & IGST in that order;
 - ITC of IGST allowed for payment of IGST, CGST & SGST in that order.
- xvi. Accounts would be settled periodically between the Centre and the States to ensure that the credit of SGST used for payment of IGST is transferred by the Exporting State to the Centre. Similarly, IGST used for payment of SGST would be transferred by the Centre to the Importing State. Further, the SGST portion of IGST collected on B2C supplies would also be transferred by the Centre to the designated State. The transfer of funds would be carried out on the basis of information contained in the returns filed by the taxpayers.
- xvii. The laws, regulations and procedures for levy and collection of CGST and SGST would be harmonized to the extent possible.

The whole GST system will be backed by a robust IT system. In this regard, Goods and Services Tax Network (GSTN) has been set up by the Government. It will provide front end services and will also develop back end IT modules for States who opted for the same.

7. CHALLENGES OF GST IN INDIAN CONTEXT

There are lots of speculations going on regarding impacts of GST implementation in India. Looking into the political environment of India, it seems that a little more time will be required to ensure that everybody is satisfied. However, for the successful implementation of the same, there are few challenges which have to face to be faced. Firstly, it is really required that every one of the states actualize the GST together and that too at similar rates. Otherwise, it will be really cumbersome for businesses to comply with the provisions of the law. Further, GST will be very advantageous if the rates are same, because in that case taxes will not be a factor in investment location decisions, and people will be able to focus on profitability [6].

As GST brought small traders in the tax net, it will difficult for small traders to compete with big traders and their survival can become something difficult. Since, GST is applicable on purchasing or consumption, its revenue will goes to state in which article sold or service is rendered instead of produced. Means, state from which resources are used to produce goods will not receive tax revenue [2].

The basic exemption limit in excise of Rs. 1.5 Crore will be taken away in GST, thereby slowly killing the SSI. Thousands & lakhs of industries in India are surviving only for one reason that they are not required to pay excise if their turnover does not exceed 1.5 Crore. This had made their products cost efficient and saleable in the market. In GST regime they will not be getting this benefit and will result in increasing the cost of their products and thereby they will be left to slow death. Another disadvantage is that the services which hitherto were charged on receipt basis will be charged on accrual basis [7].

GST will also have impact on cash flow and working capital. Cash flow and working capital of business organizations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers [4].

8. CONCLUSION

In this paper we study that, Goods and Services Tax is an indirect tax that brings together most of the taxes that are imposed on all goods and services (except a few) under a single banner. In current system, the taxes are levied separately on goods and services. The GST, however, is a comprehensive form of tax based on a uniform rate of tax for both goods and services and it is payable only at the final point of consumption. The implementation of GST in various other countries has proven to be an efficient tax collection system. Even though the system is considered better than the earlier, the transition from multiple tax regimes to unified tax regime will cause some problems too. However, these problems can be tackled if consensus exists among the states and the various stakeholders to implement the system.

9. REFERENCES

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