



## GOODS AND SERVICE TAX (GST) : CHALLENGES AND OPPORTUNITIES FOR INDIA

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### **Abstract**

*The Good and services tax (GST) is the biggest and substantial indirect tax reform since 1947. The main idea of GST is to replace existing taxes like value-added tax, excise duty, service tax and sales tax. It will be levied on manufacture sale and consumption of goods and services. GST is expected to address the cascading effect of the existing tax structure and result in uniting the country economically. GST in India works as a tool to empower economic growth and functions as an engine for generation of employment in India. This paper presents an overview of GST concept, explains its features along with its timeline of implementation in India. The paper is more focused on investigate various challenges and opportunities lay ahead for the state government in relation to GST by India in execution. The GST would ensure better compliance and reduces tax evasion. the optimistic date of rollout of GST would be July 1, 2017 implemented. The Uniform GST rates across States reduce the tax burden and compliance cost.*

**Keywords:** *GST in India, Goods and Service Tax, Indirect Tax. Economic Development.*

### **Introduction**

GST is a tax on Economic activity like Manufacturing, Services or Trading. It would be levied on nearly all supplies except those listed as exempted supplies and imports. GST exempt supplies include alcohol for human consumption and five Petroleum Products (Crude, petrol, diesel, ATF & natural Gas). GST replaces eight central and nine state taxes such as central Excise Duty, Service Tax CST, State Vat, and Entry Tax. GST would be collected at each stage of production or distribution.

Tax is the charged levied by the government on citizens for a product, income or activity. Tax levied on the price of goods and services are called Indirect tax. Tax policies play an important role on the economy through their impact on both efficiency and equity. A good tax system should keep in view issues of income distribution and, at the same time, also endeavor to generate tax revenues to support government expenditure on public services and infrastructure development. New Article 366(12A) of the Indian Constitution, defines Goods and Services Tax (GST) to mean any tax on supply of goods or services or both except taxes on the supply of the alcoholic liquor for human consumption.<sup>1</sup> The GST bill seeks to set up a GST Council. The GST Council aims to develop a harmonized national market of goods and services. According the GST Bill, the President must constitute a GST Council within sixty days of this Act coming into force. The composition of the GST Council includes:<sup>2</sup>

The Union Finance Minister (as Chairman), The Union Minister of State in charge of Revenue or Finance, and The Minister in charge of Finance or Taxation or any other Minister, nominated by each state government. The decisions of the GST Council will be made by three-fourth majority of the votes cast. The centre shall have one-third of the votes cast, and the states together shall have two-third of the votes cast

### **Research Problem**

The GST Council will also decide when the GST would be levied on petroleum crude, natural gas, high speed diesel, aviation turbine fuel and motor spirit (petrol). The Congress Party has opposed the composition of the council which gives the one-third weightage to the central government. It is demanding for the one-fourth of representation to the Central government. The Congress Party has also proposed for an independent dispute settlement mechanism. GST and Issue of Dispute Resolution The current GST bill seeks to entrust the power of dispute resolution to the GST Council, comprising the Centre and states, instead of an independent body like GST Dispute Settlement Authority as proposed in UPA government draft. A dispute redressal mechanism is needed as issues are bound to come up between states, or the Centre and states, or even with local bodies. The proposed GST Council as the dispute resolution body is criticised on the ground that how can it resolve the disputes arising out of its own recommendations. The GST Council provides veto power to centre along with state governments. The GST Council will give the Centre one-third voting power and the states two-thirds. Any decision will need three-fourth of the votes. Thus, neither the states together nor the Centre alone can change the GST. However, the dispute resolution body cannot work on this principle. Because any dispute resolution mechanism would need a judicial member.

<sup>1</sup> Tax Research Department, The Institute of Cost Accountants of India (Statutory Body under an Act of Parliament) Page 24/227

<sup>2</sup> <http://www.gktoday.in/blog/gst-council/>

The authority was supposed to have a former Supreme Court judge or chief justice of a high court as its chairman. In GST Council each state, whether big such as Uttar Pradesh or Madhya Pradesh or small such as Uttarakhand or Chhattisgarh, will have the same voting percentage with it. The weak states may sometimes become orphan as they cannot woo the stronger states to support them. Any dispute resolution mechanism whether it is independent or other way should resolve the issues in an amicable manner by giving due say to each of the parties to the dispute.

### Objective of the Study

- To expect Indian market be integrated into a single common market of GST in India;
- To know sustainable growth and development of domestic industries of GST in India.
- To identify the challenges and opportunities of GST in india
- To bring out resource mobilization and its effective utilization.

### Research Methodology

The paper is based on secondary sources of data, which have been obtained from various GST implementation discussion papers, published article in journals, web articles (internet sources), past studies and news paper etc. With the help of these secondary sources, attempt has been made to find the challenges coming on the way of GST and looking for future opportunities of it in India.

### GST in India

The proposed reform on moving to a 'goods and services tax' would impact the national economy, international trade, firms and consumers. GST is a tax on both goods and services across the supply chain/Value Chain. It is levied at every stage of supply/Value Addition. The GST on Inputs (known as ITC - Input Tax Credit) is generally available as credit for set-off against the GST on the output supply.

### Types of GST

There are four prime model of GST:

S. No	Particulars	Proposed Name	Remarks
1	GST at Central Government level only	C- GST	
2	GST at State Governments level only	S - GST	
3.	GST at union Territoriality level only	UT- GST	
4.	GST at Both, Central and state Govt. level	I- GST	

### Central Government Tax: C-GST

The GST to be levied by the Centre on intra-State supply of goods and/or services is Central GST (CGST) These Taxes will include under Central Goods and Service Tax (CGST) .Service Tax 2. Central Excise Duty 3. Additional Excise Duty 4. Excise Duty under Medicinal and Toiletries preparation Act 5. Additional customs duty (Countervailing Duty) 6. Surcharge 7. Cess

### Integrated - GST (IGST)

On inter-state supply of goods and services, Integrated GST (IGST) will be collected by Centre. IGST will also apply on imports. IGST is designed to ensure seamless flow of input tax credit from one state to another. One state has to deal only with the Centre government to settle the tax amounts and not with every other state, thus making the process easier.

### State Government Tax (SGST)

The GST to be levied by the States is State GST (SGST).The Taxes will come under the State Goods and Service Tax (SGST). 1. VAT/ Sales Tax 2. Entertainment Tax 3. Luxury Tax 4. Taxes on lotteries 5. Betting and gambling 6. Entry Tax 7. Octroi

Union Territory Goods and Service Tax UT-GST . UT-GST is a part of Goods and Service Tax in India. GST under supply of goods and services takes place in Union Territories like Andaman and Nicobar Islands, Chandigarh, Dadra and Nagar Haveli, Daman and Diu, Delhi (National Capital Territory of Delhi), Lakshadweep, Puducherry etc. is accounted under UT-GST.

### 4.4 Challenges with GST

#### 4.4.1 Amendment in the Constitution

Implementation of GST is necessary to perform the Constitutional Amendments for State to levy Service Tax as well as Central Government has the power to enhance revenue from dealers and retailers transaction. Central and State Government



is accepted that the substitute is desirable. It is not a big problem, but the system will take some time for amendment of the constitution. After the amendment in Constitution, a separate entry 92C was incorporated in the Union List to empower it to levy the Tax on services. Numbers of modified measures have been undertaken by both the Governments before implementing the GST and these should be initiated as soon as possible.

#### **4.5 Administration Issue**

GST is subsumed of various types Indirect Taxes where revenue will be divided between the Central and State Government. But there may occur various problems in this case regarding the matter of authority- who will control the system? Who will decide the Tax rate and how will the administration work? On the basis of the discussion of the first paper we can suppose that there will be separate Tax management both for the Centre and each State level. The administration of the State GST will be under the control of State while Central GST will be under the Central Government.

#### **4.6 Tax Awareness among the Stakeholders**

When GST implemented in Canada in 1990, Canadian Government "Department of Finance" spent \$11.6 million on print, radio and television media for awareness of people on the matter of GST that how it will work. A video was exposed by satellite in cable television stations across the country. Around \$5 million was spent on operating costs for GST by the Communication Groups within the department. They provided the service of toll-free hotline this attended 6,000 calls per day. In 1990-1991, Excise and Customs Department have also spent \$ 10.6 million on GST, and another \$9.2 million for printing and mailing materials for the explanation of how the new Tax will work. Total expenditure on GST was \$ 85 million. In 1989, Proctor & Gamble was the largest private-sector advertiser, which spent \$ 56.7 million on the advertisement of GST. India is a developing country and more than 60% people lives in rural areas. The (Central and State Government) have to spend a large amount of money for the awareness of people on the matter of GST.

#### **Political Issue**

Presently VAT is levied by 29 States and 7 Union Territories of India. Every State has authority to decide the Tax rate and to control the Tax system as per their convenient. If it is handed over to the Central Government, they will control the Tax rate along with the Tax system. It is a matter of great concern, but the question arises why all the States hand over their right to the Union Government.

#### **Inflation**

Australia has implemented GST on 1st July 2000. Critics have argued that it is a regressive Tax; means a person with higher income will pay lower Tax compared to those are earning the lower income. Due to the reduction in federal Sales Tax and some fuel Taxes, State banking Tax that was implemented when the GST was introduced. Australia is a conservative nation as India. Before implementation of GST, the consumer has purchased goods in bulk and stored. When GST Tax came into effect, consumer consumption and economic growth declined in the first fiscal quarter of 2001. First time in last decade, Australian economy recorded negative economic growth. The Government was also criticized by small-scale industry due to the excess of administrative responsibilities. This study has focused on the problems associated with GST which may arise here also. The Government will have to control consumer consumption and economic growth of the country so that the country will not face the same problem like Australia.

#### **Opportunities with GST**

India and GST India has federal structure. Union Government has planned for a dual GST model where Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the Taxable value of goods plus services.

#### **Benefit to Industry**

The GST is expected to be complimentary to the user of the supply chain of goods and services which include from beginning to ending the whole industry, Agriculture and trade via a comprehensive Tax regime. This is expected to generate the higher amount of revenue for the industry as well as business prospects as Tax burden goes down.

#### **Benefit to Exports**

The cost of manufactured goods and services will decrease with the comprehensive reduction of input cost of major Central and State Taxes in GST. This will create a competitive environment of goods and services of India, in the international market. The management of GST should be transparent and rationalized so that consumers will get benefits from lowering the Tax burden on goods and services consumed by them.

#### **Reduction in Cost**

As per the Government report of India "Task Force on Goods and Services Tax: Thirteenth Finance Commission" 2009, shows that the implementation of the GST will result in a sharp decline in the prices of cotton textiles ( by 6.44 percent),



wool, silk & synthetic fibre textiles (by 11.4 percent), and textile products including wearing apparel (by 17.45 percent). To the extent, the contribution of expenditure on clothing in the total overheads on consumption is relatively higher than in the case of the rich, the poor will be benefited more from deduction in prices. To some extent it will also help to solve the burning question poverty. Implementation of GST will increase the actual returns of land, labour and capital.

GST will make administration easy and ease a cumbersome tax system.

- Help goods move seamlessly across state borders.
- Reduce tax burdern on the manufacturer.
- It will stimulate investment as it makes doing business in India easier.

### **Conclusion**

In the light of the above discussion, the authors have recommended that GST system is more beneficial for the Government as well as stakeholders from the management and analysis point of view. We believe that CGST must have the authority to collecting Tax and SGST should be given the power to take the decision regarding Tax rate. In case, if there is any change in the Tax rate it should be decided through democratic consent so that there are minimum chances of political interference. GST is also helpful in avoiding Tax evasion, improved Tax collection and compliances. It reduces the cost of goods and services to some extent and creates a supportive environment for the facilitation of international trade, thereby helping in revenue generation leading to the increase in the GDP of the country. Similarly, it will also be helpful in lowering the Tax burden on the various segments of the economy. Industries, dealers, retailers and the agriculture sector as a whole will benefit from GST. It is found that in countries where GST has been implemented had positive impact on their economies. It can be looked as simplification of Taxes in country and avoiding unnecessary complexities. Researcher's observation is in support of GST system, experience of other countries strengthen the belief that it will be a milestone in the development of Taxation in India. As for challenges are concern it is between State and Central Government proportion in Taxes majorly, but directly or indirectly it is adding wealth to nation only. It has great prospects in favor of the nation. Researcher advocates that it should be implemented as soon as possible, delayed in implementation has negative impact on economy only. It will help boost and exports and spur Growth.