GOODS AND SERVICE TAX – THE ROAD AHEAD

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ABSTRACT:
GST is one of the most crucial tax reforms in India which has been long pending. GST is now accepted all over the world and countries are using it for its sales tax system. Its concepts and impacts are analyzed with various aspects and techniques. The major finding of the article is that dual GST model is the most used model for welfare effect of GST, all over the world besides presenting an overview of GST concept, advantages of GST.

INTRODCTION:

It has been more than a decade since the idea of rational Goods and Service Tax (GST) was mooted by Kelkar Task Force in 2004. The Task Force strongly recommended fully integrated 'GST' on rational basis. Subsequently, the then Union Finance Minister, Shri P Chidambaram, while presenting the central budget for 2007-2008, announced that GST would be introduced from April 1, 2010.

The Goods and Service Tax bill officially known as 'The constitution (one hundred and twenty second amendment) bill 2014' was introduced in the LokSabha by Finance Minister ShriArunJaitley on 19th December 2014, and passed by the House on 6th May 2015. The select committee of the RajyaSabha submitted its report on the bill on 22nd July 2015. The bill was passed by the RajyaSabha on 3rd August 2016 and the amended bill was passed by the LokSabha on 8th August 2016.The bill after ratification by the states, received effect from the President on 8th September, 2016

France, was the first country to implement GST in the year 1954. Within 62 years of its advert, about 160 countries across the world have adopted GST because this tax has the capacity to raise reserve in the most transparent and neutral manner. Most of the countries followed unified GST i.e., a single tax applicable throughout the country. However, in federal politics like Brazil and Canada, a dual GST system is prevalent. India too, adopting dual GST.

REVIEW OF LITERATURE:

AgogoMawuli (2014) studied, "goods and service tax - An Appraisal" and found that GST is not good for low-income countries and does not provide broad based growth to poor countries. If these countries have to implement GST than the rate of GST should be less than 10% for growth.

Dr R Vasanthagopal (2011) studied, "GST in India: A Big Lead in the Indirect Taxation System" and concluded that switching to seamless GST from current complicated indirect tax system in India will be a positive step in booming Indian economy.

Ethisham – Ahmed and SatyaPoddar (2009) studied, "Goods and Service Tax Reforms and Intergovernmental Consideration in India" and found that GST introduction bill provide simpler and transparent tax system with increase in output and productivity of economy in India. The benefits of GST are critically dependent on rational design of GST.

Nithin Kumar (2014) studied, "Goods and Service Tax – A Way Forward" and concluded that implementation of GST in India helpin removing economic distortion by current indirect tax system and expected to encourage unbiased tax structure which is in different to geographical locations.

Pinki, SupriyaKamma and RichaVerma (2014) studied, "Goods and Service Tax – Panacea for Indirect Tax System in India" *a*nd concluded that the new NDA government in India is positive towards implementation of GST and it is beneficial for both Central and State Government & also for consumers in long run if the its implementation is backed by strong IT infrastructure.

Monica Sehrawad and UpasanaDhanda (2015) studied, "GST in India: A Key Tax Reform" and concluded that implementation of GST in long term will lead to higher output and flourish GDP by 1 – 1.5%. It can also be used as an effective tool for fiscal policy management is implemented successfully due to nationwide same tax rate.

ShilpaParkhi studied – " Goods and Service Tax: The Changing Face of Economy" and concluded that the implementation of GST is a changing face of India which is a welcome move and the government is well equipped for that which is a symptom of fast paced economy.

OBJECTIVE OF THE STUDY:

The objective of the study is as follows:

1. To familiarize the concept of GST
2. To study the features of GST
3. To appraise the advantages of GST
4. To assess and analyze models of GST

RESEARCH METHODOLOGY:

Being an explanatory research, it is based on the secondary data sources of journals, articles, newspapers and books published by the professional institutes. The data so collected is used for understanding the tax structure in the GST regime. With regard to the objective of the study, illustration and descriptive type of research is adopted to have more precise and rigid analysis of research study.

CONCEPT OF GST:

GST is a value added tax levied on manufacture, sale and consumption of goods and services. GST offers comprehensive and continuous chain of the credits from the producers point / service provider point upto the retailer's level / consumer's level thereby taxing only the value added at each stage of supply chain. The supplier at each stage is permitted to avail credit of GST paid on the purchase of goods and / or services and can set off this credit against the GST payable on the supply of goods and / or services to be made by him. Thus, only the final consumer bears the GST charged by the last supplier in the supply chain, with set off benefits at all the previous stage. Since, the only added at each stage in taxed under GST, there is no tax on tax or cascading effect of taxes under the GST system. Further, GST does not differentiate between goods and services & thus, two are taxed at a single rate.

"GOODS AND SERVICE TAX" WOULD BE A COMPREHENSIVE INDIRECT TAX ON MANUFACTURE, SALE AND CONSUMPTION OF GOODS AND SERVICES THROUGHOUT INDIA, TO REPLACE MULTIPLE TAXES LEVIED BY THE CENTRAL AND STATE GOVERNMENTS

FEATURES OF GST:

a) It is a comprehensive levy and collection on both goods and services at the same rate with benefit of ITC (Input Tax Credit).
b) Minimum number of floor rates of tax not exceeding two rates
c) No scope for levy of cess, re-sale tax, special tax, additional tax etc.
d) No scope for multiple levy of tax on goods and services, such as, sales tax, entry tax, octroi, entertainment tax, luxury tax etc.
e) Zero rating of exports and interstate sales of goods and supply of services.
f) Taxing of capital goods inputs whether goods or services relatable to manufacture at lower rate, so as to reduce inventory carrying cost and cost of production.
g) A common law and procedures throughout the country.
h) It is a destination based tax and levied at a single point at time of consumption of goods or services by the ultimate consumer.

ADVANTAGES OF GST:

1) Abolition of multiple levy of taxes on goods and services
2) Reduces effective rates of tax to one or two floor rates
3) Increases voluntary compliance and tax revenues
4) No cascading effect of taxation
5) Improves the efficiency of manufacturing and distribution
6) Reduces cost of production of goods and services, increases demand and production of goods and services
7) Promotes economic efficiency and sustainable long terms economic growth
8) Reduces litigation and corruption
9) Increase the revenue to Central and State in a transparent manner
10) Reduces administrative cost for the Government

According to Dr Vijay Kelkar, Chairman of the 13th Finance Commission and former Union Finance Secretary, GST has a number of advantages, including:-

- It distributes the burden of taxation equitably between manufacturing and services
- Lowers the tax rates by broadening the tax base and minimizing exemptions
- Reduces distortions by completely switching to the destination principle

- Removes economic distortions by creating unified rational market
- Promote exports and give a boost to India's tax to GDP ratio
- Facilitates investment decisions being made on purely economic concerns, independent of tax considerations
- Promotes employment and most importantly, it will spur growth

ILLUSTRATION OF GST:

[All parties are located in the same state.**]**

Assumptions: 1. Rate of Excise Duty – 8% 2. VAT rate – 12.5%
3. Central GST rate - 12% 4. State GST rate – 8%
5. Profit margin–Rs 1,000.00

As per the below illustration, the major benefit to the consumer in the GST regime is that GST is charged always on the production basic price. If we compare and see the net result (price), it is clearly evident that consumer is benefitted under the GST regime. Under the existing taxation system, there is double taxation on the basic price of goods and services in terms of Excise Duty, CST, and VAT which increases the tax burden on final consumer. However, it can be seen under the GST system that there is no double taxation and hence the price of the goods are less which eliminates the cascading effect of tax.

Table-1 Calculation of VAT and GST

PARTICULARS		UNDER VAT	UNDER GST
I.	**Manufacturer to wholesaler**		
	Cost of production	9,000	9,000
	Input tax credit (assuming NIL)	-	-
	ADD: profit margin	1,000	1,000
	Producers basic price	10,000	10,000
	ADD: Central Excise Duty @ 12%	1,200	-
	ADD: VAT @ 12.5% on Rs 11,200	1,400	-
	ADD: Central GST @ 12%	-	1,200
	ADD: State GST @ 8%	-	800
	Sale Price	**12,600**	**12,000**
II.	**Wholesaler to retailer**		
	Cost of goods to wholesaler	12,600	12,000
	Available input tax credit for set off	(1,400)	(2,000)
	ADD: profit margin	1,000	1,000

TOTAL	12,200	11,000
ADD: VAT @ 12.5%	1,525	-
ADD: CGST@ 12%	-	1,320
ADD: SGST @ 8%	-	880
Total Price to retailer	**13,725**	**13,200**
III. Retailer to final consumer		
Cost of Goods to retailer	13,725	13,200
Input tax credit	(1,525)	(2,200)
ADD: profit margin	1,000	1,000
TOTAL	13,200	12,000
ADD: VAT @ 12.5%	1,650	-
ADD: CGST @ 12%	-	1,440
ADD: SGST @ 8%	-	960
Total Price to the consumer	**14,850**	**14,400**
TOTAL TAX PAYABLE IN ALL TRANSACTIONS	**2,850** **(**1200 + 1650**)**	**2,400** **(**1440 + 960**)**

MODELS OF GST:

Three prime models of GST

A) CENTRAL GST	**B) STATE GST**	**C) DUAL GST**
-GST to be levied by the centre	-GST to be levied by the state	-GST to be levied by the centre & state concurrently

CENTRAL GST:

Under the Central GST model, the tax would be controlled and administered by the Central Government only. In this case, the center will collect most of the country's total tax revenue. States will lose the power of controlling over the tax design and rates.

The key concern about this option is political in spite of the economic merits of National GST, it might have a damaging impact on the vitality of Indian federalism.

STATE GST:

Under the State GST model, the states alone levy GST and the Centre withdraws from the field of GST. This would significantly enhance the revenue capacity of the states and reduce their dependence on the Centre. However, there would be significant hurdles in adopting this option in India, and it may not be suitable here.

CONCURRENT DUAL GST:

Under the concurrent dual GST, the Centre and State taxes apply concurrently to supplies of all goods and services. There will be Central GST to be administered by the Central Government and a State GST to be administered by State Governments. There is no overlapping of power between the Union and the State Governments with regard to levy of taxes. While Centre taxes manufacture of goods, provision of services, inter-state sales, import & export of goods, states are empowered to levy taxes on intra-state sale. Under the dual GST model, centre and states will simultaneously tax goods and services. Centre will get the power to tax intra-state sales & states will be empowered to tax services.

All local or intra-state supplies of taxable goods and services will be liable to both CGST and SGST except where the same get excluded on account of turnover thresholds or exemptions. Credit of CGST and SGST will be available throughout the supply chain but cross utilization of credit of the same will not be possible. Since GST is a destination based tax, revenue of SGST will ordinarily accrue to the consuming states.

INTEGRATED GST (IGST) :

An Integrated Goods and Service Tax (IGST) model will be used to tax inter-state supply of goods and services. Under this model, IGST would be an average of CGST & SGST, which will be levied by centre on all inter-state supplies of taxable goods and services. The supplier in the exporting state will be allowed to set off the available credit of IGST, CGST and SGST against the IGST payable by him on the inter-state supply made. The buyer in the importing state will be allowed to avail the credit of IGST paid on inter-state purchase made by him.

Since GST will be a destination based tax, the revenue of inter-state will not accrue to the exporting state and the exporting state will be required to transfer to the centre the credit of SGST used in payment of IGST. The centre will transfer to the importing state the credit of IGST used in payment of SGST. There will be a central agency to act as a clearing house and verify the claims and inform the respective governments to transfer the funds.

INDIAN MODEL OF GST– DUAL GST:

In India, the GST model will be "Dual GST" having both central and state GST component levied on the same base. All goods and services, barring a few exceptions, will be brought into the GST base. Importantly, there will be no distinction between goods and services for the purpose of the tax with common legislations applicable to both.

The significant feature of Dual GST recommended in India is:

a) Central GST shall subsume the following indirect taxes on supply of goods and services
   - i) Central Excise Duty (CENVAT)
   - ii) Additional excise duties
   - iii) Additional Custom duties, countervailing duty (CVD)
   - iv) Various successes levied by the union
   - v) Central Sales Tax (CST)

vi) Surcharges levied by the Union

b) State GST may subsume the following taxes:

i) Value Added Tax(VAT)
ii) State Excise Duty
iii) Entertainment Tax
iv) Luxury Tax
v) Octroi
vi) Taxes on Gambling, betting, lottery

NOTE: Goods such as petroleum products, alcohol & liquor are kept outside the purview of GST.

Taxes/Duties not to be subsumed in GST:-

a) In Central GST

- Basic Customs Duty
- Excise Duty on tobacco products
- Export Duty
- Specific cess like Education cess

b) In State GST

- Taxes on liquors
- Toll tax
- Road tax
- Property tax
- Stamp duty

REVENUE NEUTRAL RATE (RNR):

Revenue Neutral Rate basically means the rate which preserves revenue at desired (current) levels. It is the rate at which tax revenue remains the same despite giving credit of duty paid on inputs and other factors.

At present, states are charging VAT at various rates on various products ranging from 0% to 20%. Similarly, Centre is charging central excise duty @ 12.5%, CVD rate on import of goods, CST @ 2%, Service tax @ 15%. All these rates are the factors for the determination of Revenue Neutral Rate.

The success of GST will largely depend on the determination of ideal rate at Central level as well as State level which should be acceptable to the public and revenue neutral to the government. Therefore, the GST rates would be fixed after ensuring that there would be no revenue loss from the proposed charges and a normal growth is maintained.

The GST rates in India are expected to be 12% to 20% for the 1st year, 12% to 18% for the 2nd year and 16% for the 3rd year and onwards.

GST RATE GLOBALLY:

Table – 2 GST rate globally

S.NO.	COUNTRY	RATE %
1	DENMARK	25
2	SWEDEN	25
3	FINLAND	22
4	AUSTRIA	20
5	ITALY	20
6	FRANCE	19.6
7	RUSSIA	18
8	UNITED KINGDOM	17
9	CHINA	17
10	GERMANY	16
11	MEXICO	15
12	SOUTH AFRICA	14

From the above table it can be observed that the highest rate and lowest rate of GST are 25 and 14. The average of the rates sums up to 19.5%. The proposed rate of GST in India is 15-18 % which seems as quiet justified when compared to the average rate and the rates existing in the foreign countries.

FINDINGS:

GST in India is proposed to be the maiden REFORM (not an amendment) in the existing indirect taxation structure. The proposed GST is a long pending and much awaited tax reform in India which is hoped to iron out the wrinkles in the existing indirect taxation system. This comprehensive tax policy is expected to be one of the most important contributors to India growth story.

CONCLUSION:

GST is a powerful concept in the field of indirect taxation. The Empowered Committee describes the GST as "a further significant improvement – the next logical step towards a comprehensive indirect tax reforms in the country'. Indeed, it has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for modernization of tax administration – make it simpler and more transparent and significant enhancement in voluntary compliance.

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