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CRITICAL ANALYSIS OF GOODS AND SERVICE TAX

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Context

India's biggest tax reform since independence, rolled out on 1st July, 2017.

The new good and simple GST (Good and Service Tax) ushers in a ray of hope for the economic pillars of the country.

About GST bill

- GST will subsume all nearby and focal aberrant assessments (aside from customs obligation).
- GST is a consumption based tax/levy. It is based on the "Destination principle."
- GST is applied on goods and services at the place where final/actual consumption happens.
- GST is a single tax on the supply of goods and services, right from the manufacturer to the consumer.
- 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.
- There are three components of GST:-

1. Central GST (CGST) – it will be Levied by Centre
2. State GST (SGST) – It will be levied by State
3. Integrated GST (IGST) – It will be levied and collected by Central Government on supply of goods and services

- The Central GST and the State GST would be levied simultaneously on every transaction of supply of goods and services except on exempted goods and services.
- In case of inter-State transactions, the Centre would levy and collect the Integrated Goods and Services Tax (IGST) on all inter-State supplies of goods and services.
- Under current laws just the Center can force an assessment on administrations. GST will enable states to gather administration charges
- Following are the assessments that will be subsumed under GST
- **Central Level Taxes** – Central Excise Duty, Additional Excise Duty, Service Tax, Countervailing Duty and unique Additional Duty of Customs
- **State Level Taxes** – State Value Added Tax or Sales Tax, Entertainment Tax, Octroi and Entry Tax, Purchase charge, Luxury Tax, Taxes on Lottery, Betting and Gambling
- All merchandise and ventures have been put under four chunk rates 5, 12, 18 and 28 percent, alongside a cess on extravagance and negative mark products, for example, tobacco, dish masala and circulated air through beverages.
- Most administrations, aside from those in the negative rundown of basic administrations, for example, medical services and instruction, will go under GST.

- An 'against exploitative' provision has been given in the Center GST (CGST) and State GST (SGST) laws, to guarantee that business passes on the advantage of decreased assessment frequency on merchandise or administrations to the purchasers.

Need for GST

- Before implementation of GST, taxes used to 'cascade', with they levied on several inputs (good or service) that have already been taxed, along with inputs to those inputs.
- Cascading of tax leads to inefficient tax collection and evasion of taxes.
- VAT rates and regulations differ from state to state. And it has been observed that states often resort to slashing these rates for attracting investors. This results in loss of revenue for both the Central as well as State government.
- On the other hand, GST brings in uniform tax laws across all the states spanning across diverse industries. Here, the taxes would be divided between the Central and State government based on a predefined and pre-approved formula.
- In addition, it would become much easier to offer services and goods uniformly across the nation, since there won't be any additional state-levied tax.
- GST will be exacted at where merchandise and enterprises are devoured. This can possibly give more incomes to burning-through states, for example, UP, Kerala and West Bengal contrasted with creating or industrialized states, for example, Maharashtra, Gujarat or Tamil Nadu.
- A system of seamless tax-credits throughout the value-chain, and across boundaries of States, would ensure that there is minimal cascading of taxes.

Implementation GST

The Central and State Governments have jointly registered Goods and Services Tax Network (GSTN) as a not-for-profit, non-Government Company to provide shared IT infrastructure and services to Central and State Governments, tax payers and other stakeholders.

The key objectives of GSTN are to provide a standard and uniform interface to the taxpayers, and shared infrastructure and services to Central and State/UT governments.

Anti-profiteering features of GST

· Once implemented, GST is expected to **bring down** the prices of goods, however it is also expected that the sellers and manufacturers may not pass on the benefits to the consumers.

· **For tackling that the GST Council**, chaired by Union Finance Minister **Arun Jaitley** and comprising state finance ministers as members, approved the anti-profiteering rules.

· **The anti-profiteering clause (Clause 171)** aims to prevent and effectively counter such practices.

· **Clause 171** has been inserted in the GST bill which makes it **obligatory to pass on the benefit** due to reduction in rate of tax or from input tax credit to the consumer by way of commensurate reduction in prices.

· Provision provides for the constitution of the National Anti-Profiteering Authority.

· The National Anti-Profiteering Authority shall have wide ranging powers which includes the ability to:

1. Issue notices to anybody that it feels warrants a "**fair probing**", as per the guidelines by the GST Council.
2. Order a reduction in prices of the commodity.
3. Impose a penalty, if deemed necessary

   Cancel the registration of a company

Benefits of GST

- GST will reduce the complexity of taxes.
- It can facilitate seamless movement of goods across states.

- It will reduce the transaction costs of businesses.
- The procedure of GST registration would also be made simple, thereby improving the ease of starting a business in India.
- There are expectations among experts that with GST, we may see 2% jump in GDP growth.
- GST will plug the leakage of tax. This, in turn, gives more money in the government exchequer.
- The country might see a significant increase in revenue productivity of income tax as the seeding of PAN in GST registration will make it difficult for businessmen to evade the tax.
- Companies which are under unorganized sector will come under the tax regime.
- Number of tax departments will reduce which in turn may lead to less corruption.
- In the long run, the lower tax burden can decrease the prices of goods and services.

Benefits of GST to Agricultural sector

- At an all-India level, Food Corporation of India (FCI) may save anywhere from Rs 6,000-8,000 crore, which could show up in a lesser food subsidy bill.
- The rationalization of mandi taxes and associated cess and levies will be the biggest gain from the GST.
- Implementation of GST may reduce food inflation, as grain and milk would remain exempted under the new regime that would put in place a single levy instead of multiple taxes.

Challenges

- Government is facing the implementation challenge. Even after providing a deadline, interface for GST filling is not yet ready.
- The numbers of returns a business have to file have been increased.
- There is still lack of clarity on which of the slab will apply on which of good.
- The GST puts additional burden on administration, increases the compliance cost and the load-bearing capacity of technology needed for providing input tax credit with multiple rates by matching every invoice.
- The requirement of e-way bills for inter-State movements has also been a cause of concern.
- India's industry and its banking system will have to change systems, train personnel and accept the extra workload for the new taxation system.
- Industries are still struggling to understand which item will fall into which tax slab.
- According to past experiences from other countries, businesses need to start early with the implementation process to be GST-ready. But it not the case with Indian industry.

Effects on States

- According to the Reserve Bank of India (RBI), even as the fiscal position at the Centre remains stable (Central budget deficit for 2017-18 pegged at 3.2% of gross domestic product), there has been a marked deterioration in the gross fiscal deficit of states.
- The figure for 2016-17 is not finalized yet but could be as high as a deficit of 3.4%.
- Revenue expenditure of the states has risen sharply in recent years with greater financial devolution and increased expenditure.
- In aggregate, the states spend about 30% more than the Centre. This gap will further increase with GST.
- The GST is a destination-based tax, and as such is viewed as being to the advantage of the consuming States and to the detriment of the producing States.
- However the formula for compensating to states for such loss has been devised in GST.

SUGGESTIONS AND CONCLUSION

- It may be worth reconsidering these rates and bringing them down to the 5 per cent slab for stronger linkages between farmers and the food processing industry and creating jobs in rural areas.

- Since the raw material could be sourced directly from farmers instead of being entirely depending on middlemen in mandis, e-NAM provides this opportunity to graduate to a real pan-India market for agricultural products.
- GST would ensure that farmers in India, who contribute the most to GDP, will be able to sell their produce for the best available price.
- A smooth GST regime can break inter-state barriers on movement and facilitate direct linkages between processors and farmers. This can transform the operations of mandis too if other necessary reforms to free up agricultural markets are undertaken.

Major Benefits and Opportunities

1. This tax assessment framework is intended to make a solitary tax collection framework in the whole nation for all merchandise and ventures.
2. GST won't be an expense to enlisted retailers subsequently there will be no covered up duties what's more, the expense of working together will be lower. This thus will help Export being more serious.
3. GST can likewise help to expansion of pay hotspots for Government.
4. Under Goods and Services Tax, the taxation rate will be separated similarly among assembling and administrations. This should be possible through lower charge rate by expanding charge base and diminishing exceptions.
5. The government accepts that GST will help _Make in India' activity by making merchandise and ventures created in India serious in the public just as worldwide market.
6. In GST System both Central GST and State GST will be charged on manufacturing cost and will be collected on point of sale. This will benefit people as prices will come down which in turn will help companies as consumption will increase.
7. Biggest advantage will be that different duties will not, at this point be available and all that will be brought under the GST. Working together now will be simpler and more agreeable as different concealed tax collection won't be available.
8. It will also enable the free flow of goods and services across the country, without artificial tax barriers. The gains in economic efficiency and economies of scale will be enormous.
9. Under GST system, all imported merchandise will be charged incorporated duty (IGST) which is comparable to Central GST+State GST. Hence the new expense law would welcome uniformity with tax assessment on nearby items.

Major Challenges

A large portion of small and medium enterprises (SMEs) are of the view that the GST is not entirely good for them and their worries might not be totally void. Decrease in duty limits is one of the primary concerns which have led them to be cautious of the Goods and Services Tax bill. Under the past tax regime, no duty was paid by a manufacturer with a gross turnover of less than Rs 1.50 crores. However, after GST implementation, this exemption limit has been considerably lowered to Rs 20 lakhs.

A large number of SMEs and start-ups would come under the purview of the GST tax.

The required IT platform, called GST Network (GSTN), the National Securities Depository Ltd has to compile the necessary data base for some eight million traders and service providers in collaboration with the Union and state governments, and issue each entity a GST ID number for retrieval of all relevant data similar to an income tax PAN card.

Setting up the administrative mechanism for implementing a complex dual GST system, which involves overlapping jurisdictions of Union and state governments, is another challenge.

Considering the GST rates and related complexity, skilled staff with updated training knowledge is not easily available.

Businesses will need to file multiple returns. Clients will need to ensure timely compliance by registered suppliers to ensure there is no loss of input credit.

The Confederation of All India Traders (CAIT), an umbrella body of traders focused on the fact that GST regime is entirely based on e-compliance but ―60 per cent of small businesses in the country, particularly in Tier-II and Tier-III cities, still have not computerized their business formats‖ .

GST – A Critical Analysis

The new tax regime will force many companies to restructure their operations. Companies will now insist vendors and suppliers to furnish invoices as GST will make it impossible for firms to evade taxes.

Since the price of a good or service is dependent on a combination of factors, which include: (i) cost of inputs, (ii) technology used for production, (iii) tax rate, (iv) demand and supply of product, (v) consumer preferences and seasonal variations, (vi) competition in the market, and (vii) distribution channels. Since costs associated with these factors keep fluctuating, it may be difficult to determine if a reduction in tax rates has reflected in a commensurate decrease in price of goods or services.

The implementation of GST should result in cost savings in the supply chain network and expedite a shift from unorganized to organized trade.

GST laws include anti-profiteering measures—the benefits of the reduction in the tax rate and input credit shall be passed on by a commensurate reduction in prices—such measures are difficult to implement but GST council will certainly keep a close vigil to ensure it.

Analysts have no doubt that inflation will remain low as GST rates on essential goods such as food grain, household consumer items and essential services have been either exempt or kept lower.

According to a research note by Morgan Stanley, GST could lead companies to pass the costs of higher tax compliance on to the consumer at a later stage.

Economists are not sure of the immediate impact of GST and some even say it may impede growth in the short term as big companies reorganize their businesses and as small firms lose revenue.

The GST implementation initially may be disruptive as there will be a major change in the supply chain but it is a fact that the tax reform will be beneficial to the economy in the medium to long term.

Most analysts believe that GST is unlikely to be a ―positive‖ for economic growth in the short term; the reform will improve the ease of doing business, bolster investor sentiment and lure more foreign investment in coming years.

The rationale behind sharing un-utilised money in the GST Compensation Fund with the Centre and among states being different from Finance Commission formula is unclear [Section 10, GST (Compensation to States) Bill, 2017].

Most analysts forecast the economy to grow close to 7.4% in 2017-18, the first year of GST rollout, which is slightly higher than 7.1% in 2016-17, but lower than 7.9% of 2015- 16.

According to domestic ratings agency CRISIL ―it will take six months for industrial stabilisation after GST is introduced but gains of the biggest indirect tax reform will take up to 3 years to materialize‖ .

More than 100 countries have successfully adopted GST, which is considered the best form of indirect taxation but with our federal structure, we will perhaps take more time than other countries for this mega reform to stabilize.

CONCLUSION

It's a matter of creating the awareness on a continuous basis, working both with the policy makers as well as with the industry associations and the end consumers i.e. considering its far reaching impact ,GST is being called a ‗game changer'. The successful implementation of GST will depend on whether or not incentives, including ease of compliance, are adequately loaded in favour of compliance as opposed to evasion. GST would prove to be a win-win situation for the entire country, bringing benefits to all the stakeholders of industry, government and the consumer. Experts believe that the GST would reduce the cost of goods and services, boost the economy and make the products and services globally competitive. In this context, restructuring of supply chains and business in general should help to reduce prices further. It is too early to say for sure what the final outcome of the GST regime will be for small and medium businesses.

However, the signs are positive and hopefully the benefits from the change in tax laws will offset the drawbacks to create a healthy environment for economic growth. From consumers‘perspective, pricing will probably be the most important parameter for evaluating the success of this mega reform. On this front, GST could turn out to be a mixed bag in the short run. The real benefit of GST will be visible in the medium to long term (over the next 12 to 18 months) when the new regime will have stabilized.

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