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AN OVERVIEW OF GOODS AND SERVICES TAX (GST) IN INDIA

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ABSTRACT

GST is most crucial indirect tax reform in India. The idea of implementing GST, which was floated in year 2000 for the first time, took 17 years for its implementation. Cascading effect of taxes, variations in tax rates and tax structures among different states and non-availability of input tax credits in some cases were some of the major limitations of the different indirect taxes applicable at that time. Different taxes like excise duty, state sales tax or VAT, central sales tax, service tax, entry tax and luxury tax etc. have been replaced by one single, comprehensive and uniform tax called Goods and Services Tax (GST), which considers no distinction between goods and services for the purpose of taxability. This dual system of GST allows both central and state governments to charge tax on goods and services. It aims primarily to eliminate the cascading effect of tax prevailing in the previous tax regime and make the tax system more simple, efficient and transparent

Key Words: Tax, VAT, GST, GST Council, Tax Reform

Introduction:

Implementation of Goods and Services Tax in India is a major indirect tax reform since independence. It is a Value Added Tax (VAT) levied on both goods as well as services implemented with the objectives of removing the cascading effects of tax in the present tax system, broadening the tax base, removing the interstate variations of taxes and to simplifying the tax structure in our country. That's why it is called a comprehensive, consumption based, multi-stage tax based on the principle of value addition. It has replaced the complicated indirect tax system imposed by Union and States governments separately. It has unified all the indirect taxes under one umbrella. It is not another tax imposed by government but is replacement of many indirect taxes imposed by central and state governments.

In India, Idea of GST was first initiated in year 2000 by then Prime Minister Sh. Atal Bihari Vajpayee. In order to design GST Model, a committee was setup by then NDA Govt. under chairmanship of Mr. Asim Das Gupta. But the first announcement of target date for implementation was made by then Finance Minister Mr. P. Chidambaram during his budget speech on 28th February, 2006, where he announced 1st April, 2010 as the target date for implementing GST in country and an empowered committee of state finance ministers was formed to decide the roadmap for this biggest tax reform. Idea which germinated in year 2000, due to procedural and political hiccups, took 17 years for implementation. Finally nation got its GST implemented on 1st July, 2017. More than 160 countries have implemented Goods and Services Tax till date. France is known to be the first to introduce GST in the year 1954 followed by many other countries like UK, Canada, Australia, New Zealand, Pakistan, Bangladesh and Malaysia etc. Most of the countries in the world follow single GST system except Brazil and Canada. The Indian GST is also Dual GST system where GST is imposed by Union and State Governments separately in the form of State Goods and Services Tax (SGST) and Central Goods and Services Tax (CGST).

Review of Literature:

Devi (2017) studied the Indian indirect tax structure and proposed GST. She highlighted that implementing GST will boost growth of Indian economy by increasing exports, creating ample employment opportunities. She stressed that it will eliminate cascading effect of tax and will lead to reduction in the prices of goods and services which in turn will result to more consumption and production of goods and services.

Ahmad & Poddar (2009) supported the rational of implementing GST by highlighting limitations of present indirect tax system. They found the present indirect system quite complex and suffering from cascading effect of taxation. Present system of VAT is not efficient enough to provide full input tax credit to the dealers and there are different types of taxation system prevailing for products and services. Study concluded that having a uniform taxation system for both goods and services across the nation will result into fiscal autonomy and harmonization.

Kumar (2017) studied the attitude of taxpayers and auditors regarding the implementation of GST. He conducted a survey to assess the opinions of the respondents regarding expected benefits of Goods and Services Tax. Majority of respondents were of the opinion that GST will increase the tax base leading to increase in govt. revenue at the same time will benefit the customer also by reducing the prices. The system will be more transparent and simple. Study found a significant level of satisfaction amongst respondents regarding tax rates.

Gupta & Komal (2017) conducted a comparative analysis of Indian GST with other countries in regard their respective models, structures, rates of taxes etc. Study found the rates of Indian GST higher than the average rates of other countries. They concluded that due to multiplicity of the taxes and other administrative complexities, compliance cost of current system of taxation has increased up to great extent therefore a single destination based taxation system is required to eliminate the limitations of current taxation system.

Shehrawat & Dhanda (2015) in their study highlighted the time line for implementation of GST in India. The study pointed out various features of proposed GST and also highlighted the key functions of proposed GST Council. They concluded that proposed system of GST will reap the benefits of single and uniform tax structure and will increase the tax base also.

Objectives of the Study:

Following are the objectives of study:

1. To analyze the previous indirect tax reforms and highlight the major limitations of Pre-GST tax regime leading to implementation of GST in India.
2. To study the Goods and Services Tax implemented in India and highlight its major characteristics.

Research Methodology:

The study adopts a descriptive research design and is based on the secondary data collected from various journals, magazine, newspapers and websites.

Administration of GST:

For the purpose of administering GST in India, a new body was set up called GST Council. In order to create this council, Govt. of India brought a constitutional amendment bill namely The Constitution (101^{st} Amendment) Act, 2016. This council consists of:

- Union Minister of Finance as its Chairman
- Union Minister of State in charge of Finance or Revenue as its member and
- Minister in charge of Finance or Taxation of each State Government as its member

GST Council is the body which makes recommendations to Union and State Government regarding various issues related to implementation and administration of GST like:

1. Different taxes to be substituted by GST.
2. Taxability or exemption of various goods and services under GST.
3. Rates of Taxes to be levied under GST.
4. Threshold limit of sales beyond which dealers' registration will be mandatory.
5. Apportionment of revenue, amongst Union and State Government, collected under GST on Interstate taxable supplies.
6. Any future date from which GST shall be levied on petroleum products, aviation turbine fuel (ATF) and alcoholic beverages for human consumption.
7. GST council acts as a dispute settlement authority also.

Modern tax administration in any country is very much dependent on information technology (IT) infrastructure. Success of GST depends on establishing an effective IT system and integrating IT systems already prevailing across states and central governments. Such integration will provide smooth transfers of input tax credits across states and acts as tax clearing house for inter-state transactions. Simplification of the procedures for submissions of returns would induce voluntary compliance and therefore it is expected that minimum burden on tax payers in terms of information sharing will lead to better tax compliance.

To achieve this objective, the GST Network (GSTN) has already been formed by government by forming a non-governmental private limited company u/s 25 (not for profit companies). It was incorporated in 2013 with authorized capital of Rs. 10 crores. 24.5% equity in this company is owned by Central government whereas another 24.5% of equity is owned by all states governments. Balance 51% share of equity is owned by non-governmental financial institutions. This company has been incorporated primarily to provide IT infrastructure and services to central and state governments, taxpayers and other stakeholders for implementation of the GST.

Previous Tax Reforms

In the past few decades, indirect taxation system in India has witnessed many reforms. Introduction of Modified Value Added Tax (MODVAT) in 1986, implementation of Service Tax in 1994, Central Value Added Tax (CENVAT) in 2001 and replacement of Sales Tax by VAT by different state governments in 2005-06, are the few to talk about. A manufacturing level Value Added Tax System called Modified Value Added Tax (MODVAT) was introduced in the year 1986. This system had limited coverage and provision for input tax credit initially and later the scheme was expanded and credit for duty paid on capital goods was also brought under this scheme. But this system was suffering from many limitations as it was inspection intensive and required a lot of physical verification of goods lead to complexity of the system. Further the input tax credit was allowed on one to one matching of inputs and output resulting into many issues related to tax administration and increased compliance cost.

In order to overcome the limitations prevailing in MODVAT, a new system called Central Value Added Tax (CENVAT) was introduced in 2001 adopting the recommendations of tax reform committee. It widened the tax base and introduced the provision of allowing input tax credit in the absence of physical verification of goods on removal. It further allowed the input tax credit against input as well as capital goods which was missing in the MODVAT.

Meanwhile service tax was also introduced in the year 1994 on three services only which gradually expanded its ambit by increasing the number of taxable services. Later in the year 2004, input tax credit scheme of CENVAT and Service tax were merged allowing the tax payers to avail cross input tax credit. In the Union Budget 2012-13, the concept of a “negative list” for taxation of services was introduced with a list of 17 services excluded from service tax.

Introduction of negative list based taxation of services resulted in transition from selective list based taxation of services to comprehensive approach where all services, except those in the negative list, were brought under the service tax. However, a number of services which were in the negative list, were either taxed by the State Governments (e.g., service of transportation of passengers, services by way of transportation of goods, betting, gambling or lottery, access to a road or a bridge on payment of toll charges, Trading of Goods) or by the Central government by other taxes (e.g., processes amounting to manufacture or production of goods).

Prior to introduction of VAT principle, indirect taxes were suffering from problem of cascading effect. There was tax competition and disharmony in tax rates, exempted items and different tax schedules of different states because of which there were problems faced by tax payers while claiming input tax credits for inter-state purchases.

Introduction of CENVAT could be termed as the first coordinated tax reform initiative in India since independence as it achieved many milestones. Some of these can be discussed as follows:

1. An Empowered Committee of State Finance Ministers was formed to build a bridge across States as well as Central Government. The Committee played a crucial role to build consensus among States and Central Government to roll out VAT.
2. The relatively harmonized tax structure, rates, tax schedules and tax base were achieved under VAT which resulted in cleaner tax system for State tax administration and harmonization of rules and regulation created a favorable environment for economic activities.
3. Introduction of pre-announced audit instead of surprise inspection of premises resulted in greater reliance on voluntary compliance by taxpayers.
4. By allowing input tax credit against inputs as well capital goods, the system facilitated State tax administrations to get familiar with processes of refunds which prepared the base for further tax reforms like GST.
5. Adoption of information technology-intensive infrastructure empowered State tax administrations to sharpen their skills in more crucial parts of tax administration like scrutiny assessment, risk analysis, fraud detection etc.

6. By allowing input tax credits, the system unlocked substantial working capital previously locked in as unpaid credits, and provided incentives to taxpayers for voluntary compliance.

Limitations of Pre-GST Tax System:

a) In regard to Taxation of Goods

In the previous indirect tax regime, four major taxes were levied on goods manufactured in country. First was the CENVAT, which was a value added tax imposed and collected by central government and incidence of tax was manufacturing of goods. It was uniform across different states and allowed the input tax credit against Central Excise duty, Service Tax (2004 onwards) and countervailing duty. And other taxes were state sales tax or VAT and Entry Tax (in lieu of Octroi), which were imposed, collected and retained by state governments. Fourth tax was central sales tax, which was levied by central government on inter-state trades or sales but was collected and retained by exporting states only.

The rates of State taxes and rates for allowing input tax credits varied across States. For example, the standard VAT rate varied from 12.5% to 14.5 % for the majority of States. For goods which are under State VAT, input tax credits against in-State purchases were allowed. For the majority of States, Entry Tax (in lieu of Octroi) was commodity specific and some States did not allow an input tax credit against Entry Tax (e.g., Assam, Karnataka, Odisha). Entry tax rates varied across States and commodity. Therefore previous system resulted in substantial transaction costs for businesses, as they had to comply with different State tax rules and regulations with different tax rates for same commodity, and it discouraged voluntary compliance which leads to revenue leakage.

This system of taxation could be best described as an origin-based tax system where the manufacturing (origin or exporting) State collected CST on goods being sold inter-State. Since it was a tax collected by the origin state, the destination (importing) State was not used to allow input tax credit against CST. Therefore, CST remains a stranded cost for inter-State dealers and manufacturers using goods procured from other States. If the goods were used to sold from the origin State to final consumer (B2C transactions), the origin State levied CST at the rate equivalent to State VAT whereas the destination State did not get any tax on the transaction. However, if the incoming goods were imported for trading, the import attracted full State VAT in addition to Entry Tax depending on the type of the goods and State of operation. In States where entry tax was used to be collected on behalf of local governments and the revenue was passed on to them, Entry Tax remains a stranded cost for these States as no input tax credit against Entry Tax is allowed. A few States provided input tax credits against Entry Tax provided the goods are meant for further value addition or trade in the State concerned.

The non-allowance of input tax credits breaks the chain, leading to cascading effect which is not conducive for businesses as it causes substantial locking up of working capital as unpaid credits. The system also did not provide enough incentives to businesses to take registration. Non-inclusion of a large section of businesses under the tax net is not conducive for the economy as well as taxation system. These features of the previous indirect taxation system encouraged a large part of economic activities to evade taxes and generate unaccounted income.

b) In regard to Taxation of Services

Similar kinds of problems were prevailing in the service tax also. Service tax was a tax imposed and collected by Central Government on all services except mentioned in negative list. Since these services were not zero-rated therefore these services were not able to claim refund of CENVAT paid on purchase of goods and services as input and thus remains a stranded cost.
Therefore the previous tax regime was suffering from following limitations:

1. There was no uniformity of tax rates across states.
2. There was cascading effect of taxes due to tax on tax.
3. No credit for excise duty and service tax paid as input tax was available to trader while paying state level sales tax or VAT and vice versa.
4. Further no credit for taxes paid in one state was available in other states.
5. Imposition of multiple taxes with different tax base in different states made the tax structure complicated. This lead to high compliance cost and tax evasion.

All such issues warrant the replacement of previous tax regime by an efficient, simple and rational GST structure. It is expected that under GST regime, the tax structure across States will be harmonized as multiple taxes have been subsumed under GST and further there will be no distinction considered between goods and services, therefore all above said limitations will automatically be eliminated and tax payers will be in a position to take full credit for input tax paid irrespective of goods or service.

Salient Features of Indian GST:

1. It is applicable to both goods and services.
2. Incidence of tax in GST is the supply of taxable of goods and services as against the manufacture of goods, removal of goods or sale of goods in the previous tax regime.
3. GST is chargeable on all goods and services whereas some products like alcohol for human consumption, electricity, real estate are kept outside the purview of GST. Further few goods like petroleum products, natural gases, aviation turbine fuel (ATF) are also excluded from the ambit of GST, but will be included under GST on a future date to be recommended by GST Council. Tobacco is also covered under GST in addition to power of central government to charge excise duty on the same.
4. In contrast to previous tax regime, there is no distinction in raw materials and capital goods for availing credit of input tax.
5. No difference in goods and services for the purpose of chargeability of tax which removes the classification dispute.
6. It is a dual system of taxation wherein Central and State govt., both levy tax on the same base of tax simultaneously. GST imposed by Center is called Central Goods and Services Tax (CGST) and that to be levied by State is called State Goods and Services Tax (SGST). Both the taxes are chargeable on common base i.e. supply of taxable goods and services.
7. In addition to above an Integrated Goods and Services Tax (IGST) is also levied by Central Government on the Inter-state sales. IGST is later apportioned between Central and State Govt. as per recommendations of GST Council. The following table clarifies the chargeability of GST:

Sr.	Type of GST	Levied on	Collected by
1	SGST	Intra-state sales	State Government
2	CGST	Intra-state sales	Central Government
3	IGST	Inter-state sales	Collected by Central Government and then shared between Central Government and State Government depending upon principle of destination of Goods

8. It is a destination based consumption tax as against the origin based taxation in the previous tax regime.
9. Import of goods is also treated as inter-state supplies and is subject to IGST in addition to applicable custom duties.
10. Exports are considered as zero-rated supplies.
11. GST is levied on the rates mutually decided by Central and State Governments and notified by GST Council. As of now four rate slabs of 5%, 12%, 16% and 28% are applicable. In addition, a cess would be imposed on some goods categorized as demerit goods.
12. State governments will be compensated by Central government for the first 5 years on account of any loss of revenue arising because of GST. Quantum of this compensation will be decided GST council.
13. A threshold limit of Rs. 20 Lakh is applicable for both SGST and CGST collectively. A dealer having an annual turnover of taxable goods and services below this limit is not bound to register for the GST.
14. There is another optional scheme called "Composition Scheme" available for small taxpayer having annual turnover of taxable goods and services upto Rs. 50 lakhs. Under this scheme dealer is liable to pay tax as per a fixed percentage on his annual turnover in his state without availing the benefit of Input tax credit.
15. Tax payers/ dealers registered under normal scheme can avail the full credit of input GST paid in purchase of goods and services.
16. Credit for input CGST paid on purchase can be taken from Output CGST collected by dealer and similarly credit for input SGST paid on purchase can be taken from output SGST collected. Input tax credit for CGST paid on purchase can be availed from output

SGST collected on sales. In other words two streams of input tax credit cannot be cross utilized except in case of IGST.

17. The whole mechanism of GST is backed by IT support system called Goods and Services Tax Network (GSTN).
18. Following are the major act enacted by governments to implement GST:

Major Acts Passed by Central & State Governments
1. 101st Constitutional Amendment Ac, 2016 2. The Central Goods and Services Tax Act, 2017 3. The Integrated Goods and Services Tax Act, 2017 4. The Union Territory Goods and Services Tax Act, 2017 5. Different State Goods and Services Tax Acts have been passed by each state government separately.

19. GST has replaced the following taxes earlier levied and collected by Central and State Governments:

Central Taxes substituted by GST	State Taxes substituted by GST
1. Central Excise Duty 2. Duties of Excise (Medicinal and toilet Preparations) 3. Additional Duties of Excise (Goods of Special Importance) 4. Additional Duties of Excise (Textiles and Textiles Products) 5. Additional Duties of Customs 6. Special Additional duty of Customs 7. Service Tax	1. State VAT 2. Central Sales Tax (CST) 3. Purchase Tax 4. Luxury Tax 5. Entry Tax 6. Entertainment Tax (Except those levied by local bodies) 7. Taxes on Advertisements 8. Taxes on lotteries, betting and gambling

Advantages:

Implementation of GST has resulted into removal of cascading effect of tax completely as it is a tax based on VAT principle. It allows input tax credit across goods and services at every stage of supply. It has harmonized the tax laws, procedures and rates of taxes. Uniform rates of taxes across nation will reduce the incentive for tax evasion and average tax burden is likely to come down which is expected to reduce the prices in long run.

1. Removal of cascading effect of taxes which will result into reduction in prices and will make the Indian products and services more competitive in global market.
2. Simpler tax regime with fewer exemptions and broader tax base.
3. It has created a single, unified Indian market to make the economy stronger.
4. Reduction in multiplicity of taxes leading to simplification and uniformity.
5. Reduction in compliance cost as no multiple records keeping will be required for variety of taxes.
6. Simplified and automated procedures for various processes such as registration, returns, refunds and tax payments etc.
7. Less public interface as al interaction is through common portal called GSTN.

Conclusion:

By implementing GST, India has entered into a tax regime that is almost similar to the rest of world. It is simple and harmonized tax structure that is neutral to business processes across country. It is known to be an efficient tax system because it will reduce the cost of collection and eliminate the economic distortions. It will lead to higher output, more employment opportunities and flourish Indian GDP and give India a platform to increase its national income and revenues. But the positive impacts referred above are dependent on a neutral and rational design of the GST, balancing the conflicting interests of various stakeholders, full political support for this fundamental tax reform.

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