Pros and Cons of GST in India-An Overview

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Abstract:
GST is stated to be one of the biggest tax reforms in India; it is the only indirect tax that directly affects all sectors and sections of our economy. The GST bill, known as the Goods and Services Tax, The tax came into effect from July 1, 2017 through the implementation of One Hundred and First Amendment of the Constitution of India by the Modi government. It is being described as the game changer of the Indian economy due to its sweeping impact on the businesses in India. GST in India is the replacement of all previous taxes on the goods and services. It is an indirect tax that will take over all previous taxes. There are many challenges before the government for its implementation, success and proper benefit gain. This paper reviews the pros and cons associated with GST after its implementation. It is found that there is a serious challenge faced by the industry and businesses is the shift from the previous tax regime into the Input tax credit of the GST. Many people in the economy are struggling to get adapted to the destination based tax of GST.

Keywords:
GST, reforms, tax, business, India, economic growth.

I.INTRODUCTION:
India is the second largest consumer market in the world. There are over a billion consumers, and companies from all over the world are making inroads into this developing nation to get a piece of the action. The Indian growth story has been remarkable and resilient. It has been resilient because the growth has happened despite the unfavorable business atmosphere in the nation. Companies have always found it difficult to cope with the incredibly complex and harrowing taxation system that India had put into place. However, on the midnight of 30th June 2017, India woke up to a new tax regime. From 1st July 2017, the various taxes that were levied by different state and local authorities were scrapped. A new system was created, the result of which was a unified tax system that would work all across the nation. The principle followed during the implementation was "One nation, One market, One tax "This was no less than a historic moment. This is because various Indian governments have been involved in a massive parliamentary debate for over 15 years on this issue of GST. Finally, the system has seen the light of day.

Whether this system has been the game changer that it has always been touted to be is yet to be seen. Hence, for the moment, we will focus only on its widely debated pros and cons.

II.BRIEF HISTORY OF GST IN INDIA:
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. This spelt out features of the proposed GST and has formed the basis for discussion between the Centre and the States so far.

The introduction of the Goods and Services Tax (GST) is a very significant step in the field of indirect tax reforms in India. By amalgamating a large number of Central and State taxes into a single tax, GST will mitigate ill effects of cascading or double taxation in a major way and pave the way for a common national market. From the consumers point of view, the biggest advantage would be in terms of reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. It would also imply that the actual burden of indirect taxes on goods and services would be much more transparent to the consumer. Introduction of GST would also make Indian products competitive in the domestic and international markets owing to the full neutralization of input taxes across the value chain of production and distribution. Studies show that this would have a boosting impact on economic growth. Last but not the least, this tax, because of its transparent and self-policing character, would be easier to administer. It would also encourage a shift from the informal to formal economy.

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The government proposes to introduce GST with effect from 1st July 2017.

III.GST AND CENTRE-STATE FINANCIAL RELATIONS:

Currently, fiscal powers between the Centre and the States are clearly demarcated in the Constitution with almost no overlap between the respective domains. The Centre has the powers to levy tax on the manufacture of goods (except alcoholic liquor for human consumption, opium , narcotics etc.) while the States have the powers to levy tax on sale of goods. In case of inter-states sales, the Centre has the powers to levy a tax (the Central Sales Tax) but, the tax is collected and retained entirely by the originating States. As for services, it is the Centre alone that is empowered to levy Service Tax. Since the States are not empowered to levy any tax on the sale or purchase of goods in the course of their importation into or exportations from India, the Centre levies and collects this tax in addition to the Basic Customs Duty.

Introduction of GST required amendments in the Constitution so as to empower the Centre and the States concurrently to levy and collect GST.The assignment of concurrent jurisdiction to the Centre and the States for the levy of GST required a unique institutional mechanism that would ensure that decisions about the structure, design and operation of GST are taken jointly by the two. To address all these and other issues, the Constitution (122nd Amendment) Bill was introduced in the 16th Lok Sabha on 19.12.2014. The Bill provides for a levy of GST on supply of all goods or services except alcohol for human consumption. The tax shall be levied as Dual GST separately, but concurrently the Union (CGST) and the States (SGST). The Parliament would have exclusive power to levy GST (IGST) on inter state trade or commerce (including imports) in goods and services. The Central Government will have the power to levy excise duty in addition to GST, on tobacco and tobacco products.

The constitution Amendment Bill was passed by the Lok Sabha in May, 2015. The Bill with certain amendments was finally passed in the Rajya Sabha and thereafter by the Lok Sabha in August, 2016. Further, the Bill has been ratified by the required number of States and has since received the assent of the President on 8th September, 2016 and has been enacted as the 101st Constitution Amendment Act, 2016. The GST Council has also been notified w.e.f. 12th September, 2016. GST Council is being assisted by a Secretariat. The Goods and Service Tax Council (hereinafter referred to as, "GSTC") comprises of the Union Finance Minister, the Minister of State (Revenue) and the State Finance Ministers to recommend on the GST rate, exemption and thresholds, taxes to be subsumed and other matters. One-half of the total number of members of GSTC form quorum in meetings of GSTC. Decision in GSTC is taken by a majority of not less than three-fourth of weighted votes cast. Centre has one-third weightage of the total votes cast and all the states taken together have two-third of weightage of the total votes cast. The Goods and Services Tax (GST) is a vast concept that simplifies the giant tax structure by supporting and enhancing the economic growth of a country. GST is a comprehensive tax levy on manufacturing, sale and consumption of goods and services at a national level. On bringing GST into practice, there is an amalgamation of Central and State taxes into a single tax payment. It would also enhance the position of India in both, domestic as well as international market. At the consumer level, GST aims to reduce the overall tax burden, which is currently estimated at 25-30%. Under this system, the consumer pays the final tax but an efficient input tax credit system ensures that there is no cascading of taxes- tax on tax paid on inputs that go into manufacture of goods. All decisions taken by the GST Council has been arrived at through consensus. The option of exercising a vote has not been resorted to till date. To ensure smooth roll-out of the GST, various Committees and Sectoral groups has been formed comprising of members from both Centre and States. Taxes at the Centre and State level are being subsumed into GST

At the Central level, the following taxes are being subsumed:

1. Central Excise Duty,
2. Additional Excise Duty,
3. Service Tax,
4. Additional Customs Duty commonly known as Countervailing Duty, and
5. Special Additional Duty of Customs.

At the State level, the following taxes are being subsumed:

1. Subsuming of State Value Added Tax/Sales Tax,
2. Entertainment Tax (other than the tax levied by the local bodies), Central Sales Tax (levied by the Centre and collected by the States),
3. Octroi and Entry tax,
4. Purchase Tax,
5. Luxury tax, and
6. Taxes on lottery, betting and gambling.

IV. DISCUSSION

PROS AND CONS OF GST IMPLEMENTATION IN INDIA

(Pros/Advantages) :

1. GST is expected to build a more transparent and corruption-free tax system in India.

2. It is easy to start a business in the post-GST regime and tax regulations are easier than before.

3. Composition mechanism is there to reduce the tax burden from small businesses and startups.

4. Input credit (ITC) mechanism ensures an uninterrupted flow of cash for businesses and reduced price of goods/services for the end consumers.

5. The merging of all the indirect taxes makes it easier to process the tax payment for the government as well as for the taxpayers.

6. Tax harmonization

7. More simplified movement of goods and/or services between states and within the country.

8. GST is calculated on the total amount, irrespective of the type of sales and services.

9. GST has eliminated the cascading effect of taxes by introducing a unified tax system.

10. Since it is a destination based tax, the tax will only be paid by the consumer upon delivery of goods/services.

11. The implementation of Goods & Services tax puts India in the line of international tax standards, making it easier for Indian businesses to sell in the global market.
12. Inflation is expected to stay under control after the implementation of GST.

13. GST is expected to reduce the price of production, operational and others costs that will benefit the end consumers.

14. The cost of collecting the tax is reduced thus resulting in a higher revenue for the government.

15. GST has the mechanism of integrated tax that makes sure that the tax burden is split impartially between manufacturing goods and services.

16. The complexity of tax compliance is reduced as all the returns are being filed and taxes are being paid through a single platform.

17. Since all the records and data are now available on a single platform, it has become easier for the tax authorities to identify and deal with tax evasions.

18. One major benefit of GST is that the government is now receiving more taxpayer registrations than ever before.

(Cons/Disadvantages)

1. GST compliance and tax filing has increased the implementation cost for businesses, as they are required to invest in computers, accounting (GST) software and/or trained GST experts (CAs and accounting experts).

2. The process of GST compliance is also proving daunting as most businesses are not yet fully aware of the rules, provisions and processes of the new tax system, including the process of return filing, GST registration, returns filing schedule, invoicing and billing, etc.

3. The overall cost of doing business is going to increase, at least in the first few months of GST.

4. The implementation of GST in the middle of the financial year is creating a lot of confusion among business, as to whether to follow the old tax rules or new ones or both.

5. Many businesses, especially small businesses and startups, do not usually have the money or tech resources to get compliant with the digital GST system. A cloud-based (online) GST software like the Gen GST could be a perfect solution to this problem.

6. The tax relaxation limit for small manufacturing businesses, which was 1.50 crores earlier, is now Rs. 20 lakh under the GST system. This has effectively increased the tax burden for such businesses.

7. No clarification about tax holidays has further increased operation costs for textile, pharma and other manufacturing industries.

8. The chaos among businesses has ended up creating a disruption in the industry.

9. Consumers are not very hopeful about GST benefits and implementation and therefore, they are reluctant to adapt to the new system.

10. The tax rate has been increased for many products, thus increasing their costs.

11. Although there is a provision of input credit in GST, some businesses are not willing to pass on its benefits to their consumers.

12. The cost of refurbishing has increased due to increased tax, thus increasing the price of refurbished products.

13. Businesses are required to have separate registrations for multiple business entities in different states. It will increase the burden of tax compliance.

14. GST has reduced the tax revenue of some states as they are now required to share revenues with the central government.

15. The tax will be paid by the end consumer, which makes it a non-consumer-friendly tax system.

V.METHODOLOGY:

The data taken for this study is secondary in nature from the reports and websites of government and private Organizations.

VI.DATA PRESENTATION:

The international experience of GST implementation shows that tax authorities and government may need to be careful about issues around tax evasion such as small businesses not registering; under-reporting of actual sales by traders; traders reducing their liability by exaggerating the proportion in the lower tax slabs; traders collecting tax but not remitting to the government; and traders making false claims for refunds.

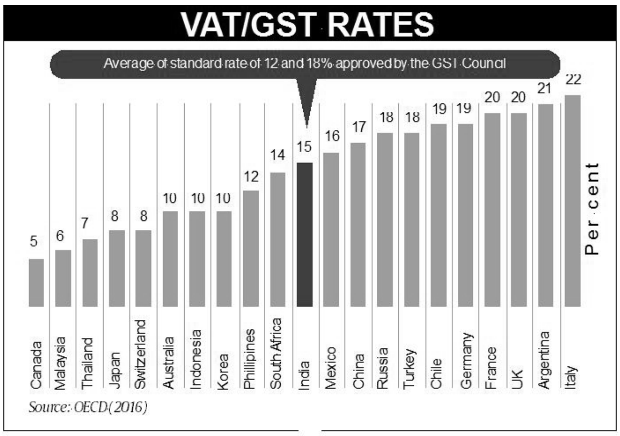
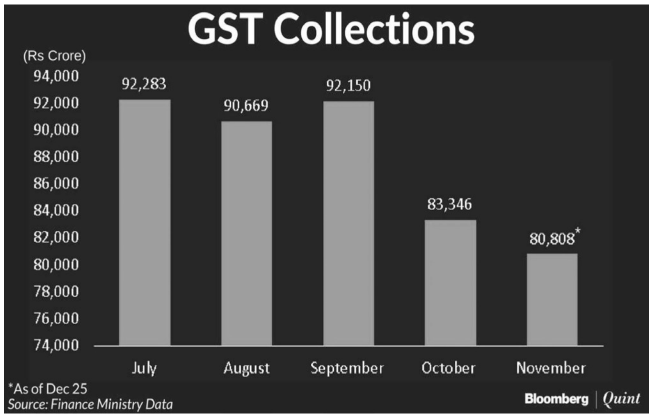


Figure No: 1

The report prepared by the Fiscal Analysis Division of the Department of Economic and Policy Research (DEPR) at RBI, however, also highlighted several merits of GST implementation. While on the one hand, it is likely to strengthen cooperative federalism and have far-reaching implications for growth, inflation, public finances and external competitiveness in the Indian economy, it is may also bolster states' revenue and anchor fiscal consolidation without compromising on expenditure quality. India has proposed an initial rate of 15 per cent (average of standard rates – 12 and 18 per cent approved by GST Council), the average VAT/GST rate in major OECD countries is higher than the rate proposed for India and those prevailing among other emerging market economies (EMEs) in 2016.

It also stated that India's plan to have central GST (CGST) and state GST (SGST) has some resemblance to the structure of the system existing in the Canadian province of Quebec where independent federal (GST) and provincial (QST) VATs are operative simultaneously.



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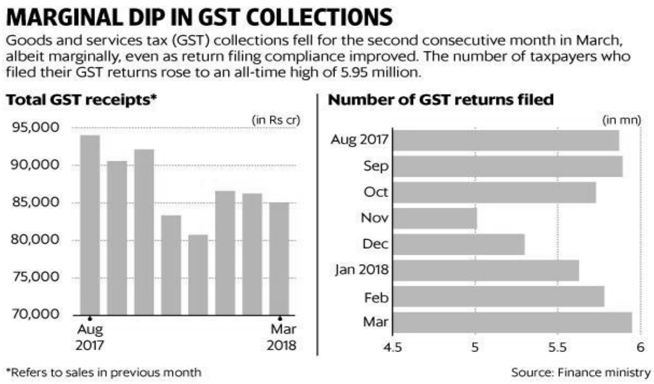

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VII.FINDINGS:

1. The RBI report suggested that a robust and fail-proof information technology (IT) framework is an essential prerequisite for the success of the GST, given the large volume of transactions involved.

2. It is also important to sensitize the industry and public through information dissemination such as release of legislative documents and conducting outreach programmes/media interactions with the tax authorities. The tax laws need to be simplified to avoid definitional issues and defray administrative costs, the report added.

3. Referring to lessons from implementation of GST from other countries, it said that a well-designed goods and services tax should ensure that, A single rate is levied on a comprehensive base (goods and services); no exemptions are given beyond standard ones; GST refunds are processed expeditiously; an adequate threshold is delineated to exclude small and micro business; and initial rates are suitably calibrated to avoid disruptions to economic activity and macroeconomic stability.

4. It has been a matter of debate for couple of years now as to what kind of impact GST may have on the average growth, the report states that the average growth in some advanced economies increased by about 0.7 percentage point following fiscal (including tax) reforms. “As it promotes competitiveness, efficiency gains from GST are considered to be higher vis-a-vis other taxes, the benefits of which accrue to growth over the medium-term.

5. Even from a fiscal perspective the international evidence suggests that implementation of VAT/ GST has resulted in a higher government revenue-GDP ratio over time. An earlier study concluded that the tax-GDP ratio increased significantly after VAT implementation in twelve European countries. Moreover, OECD data on member countries from Europe suggest an increase of 37 per cent in the VAT revenues-GDP ratio between 1975 and 2006 (OECD, 2008).

6. Of the total mop-up for November, Rs. 13,089 crore came from Central GST, Rs 18,650 crore from State GST, Rs 41,270 crore as Integrated GST and Rs 7,798 crore as compensation cess. 53.06 lakh returns were filed for the month of November till Dec. 25.

7. From the IGST collection, Rs 10,348 crore has been transferred to the CGST account, while Rs 14,488 crore is being transferred from IGST to SGST account by way of settlement of funds on inter-state business to customer transactions.

8. The downward trend in GST revenue is a cause for concern. Though the reasons can be attributed to lowering of rates in mid-November, the expansion of tax base and buoyancy due to rate reduction should have ideally checked the dip in collections.

9. The GST Council, in its Oct. 23 meeting, lowered rates on more than 200 items, most of which were brought to 18 percent from the highest 28 percent. The new slabs came into effect on Nov. 15.

10. The government had attributed the low October collection to the delay in introducing electronic way bills, reverse-charge mechanism—where recipients of goods and services pay tax instead of suppliers—and invoice matching that were meant to increase compliance. The GST Council has rolled out e-way bills for the movement of goods between states.

11. The dip in revenue is along expected lines given that rates of over 200 items were reduced from Nov. 15 and refunds to exporters were initiated recently.

12.Even for December, there could be an impact of opening credit(transitional credit) claim for which the last date is Dec. 27.

13. GST collections slid for the second straight month to Rs85,174 crore in February as only 69% of the assessees filed returns.

14. Around 59.51 lakh GSTR 3B returns were filed for February. This is 69% of the total taxpayers who are required to file the monthly returns.

15. The total revenue received under GST for the month of February 2018 (received up to 26 March) has been Rs85,174 crore , said the finance ministry.

16. The GST collections in January stood at Rs86,318 crore, while in December and November it was Rs88,929 crore and Rs83,716 crore.

17.Till 25 March, 1.05 crore taxpayers had been registered under GST. Of these, 18.17 lakh are composition dealers who are required to file returns every quarter and the rest, 86.37 lakh, are required to file returns every month.

18. Of the Rs85,174 crore GST collections in February, Rs14,945 crore has been garnered as Central GST and Rs 20,456 crore as State GST. Besides, Rs42,456 crore has been collected as Integrated GST and Rs7,317 crore as compensation cess. A total amount of Rs25,564 crore is being transferred from IGST to CGST/SGST account by way of settlement.

19. Thus, the total collection of CGST and SGST up to 26th March (for February) is Rs27,085 crore and Rs33,880 crore respectively, including transfers by way of settlement.

20. According to a finance ministry reply to the Lok Sabha, GST collections were Rs93,590 crore in July, Rs93,029 crore in August, Rs95,132 crore in September and Rs85,931 crore in October.

21.The next big hope for the government would be the introduction of GST e-way bills with effect from 1 April, which may provide a boost to GST collections. After the e-way bill rollout, transporters of goods worth over Rs50,000 will have to generate an e-way bill. The e-way bill, which would be required to be presented to a GST inspector if asked for, is being touted as an anti-evasion measure and would help boost tax collections by clamping down on trade that currently happens on cash basis.

22. The monthly Goods and Services Tax collection declined to its lowest since its rollout after the apex body for the new nationwide sales tax cut rates on more than 200 items.

23. The government collected Rs 80,808 crore GST for November as on Dec. 25, said a statement by the Ministry of Finance. That compares with Rs 83,346 crore collected in October, Rs 92,150 crore in September, Rs 90,669 crore in August, and Rs 92,283 crore in July, according to statements issued by Ministry of Finance.

VIII.CONCLUSION:

GST is a kind of VAT that would incorporate every other within a single channel within the entire zones in India. In short, each state is going to have the same GST rate, or the states can't fix their own rate. Hailed as one of the biggest tax reforms of the country, the Goods and Services Tax (GST) subsumes many indirect taxes which were imposed by Centre and State such as excise, VAT, and service tax. It is levied on both goods and services sold in the country.

Any reform is bound to have advantages and disadvantages The GST have both its pros and cons, and it is expected to bring a positive change in the tax system of India. GST is an imperfect policy. However, the degree of imperfection is much less as compared to that of the previous policies. As time passes by, the people of India should be able to adjust much better with this policy. It is likely that GST will be a game changer in the long run.

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