An Analysis of the Impact of Goods and Service Tax (GST) in India: Challenges of Implementation

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Abstract. As the Lok Sabha passed Goods and Services Tax (GST) bill it was confirmed that the country will now come under single tax net for the first time. This tax reform came into existence when the Lok Sabha approved four supplementary legislations. The opposition parties put up a lot of objections which resulted in some amendments in the legislations. GST subsumed a host of indirect taxes levied by the Centre and states, including excise duty, VAT, service tax, entry, luxury and entertainment levies. As the news flourished both the print media, the electronic media, the political parties and the trade pundits started talking about the pros and cons about the GST Implementation. With the Government portraying it as a landmark achievement the opposition was full of criticism. Many International newspapers also published their views on it by depicting it as a new wave of economic reform in the country. This paper tries to analyse the background, future prospects and the challenges of Implementation of Goods and Services Tax (GST) in India. On the basis of the study the paper will examine the key facts and draws out the conclusion.

Keywords: Goods and Services Tax, Trade and Commerce, Global Economy,

1 Introduction

"The earliest known tax records, dating from approximately six thousand years B.C, are in the form of clay tablets found in the ancient city-state of Lagash in modern day Iraq" according to a publication on the Association of Municipal Assessors of New Jersey (AMANJ) website. There were taxes in ancient Egypt, and ancient Roman governments charged taxes in times of war. The modern inventions in the field of taxation include, sales taxes, payroll taxes and income taxes. Egyptian pharaohs used tax collectors – called scribes – to collect money from their citizens. This wasn't typically an income tax. Instead, it was a tax on a specific type of good.

A tax is levied upon a tax payer by the government as a mandatory charge in order to fund its various public expenditures. A failure to pay, or evasion of or resistance to taxation, is punishable by law. Tax can be collected directly or indirectly, hence its two forms are direct tax and indirect tax. Most countries have a tax system in place to pay for public/common/agreed national needs and government functions: some countries charge a taxation on a flat percentage rate, some charge it on the basis of a scale of the annual income amounts and some countries impose almost no taxation at all, or a very low tax rate for a certain area of taxation. Some countries charge a tax both on corporate income and dividends; this is often referred to as double taxation as the individual shareholder(s) receiving this payment from the company will also be levied some tax on that personal income.

1.1 Indian Taxation System

The taxation system in India is quite well designed. The Department of Revenue of the Finance Ministry of the Government of India is responsible for the computation; levy as well as collection of most the taxes in the country. There are some taxes which are even levied solely by the Local State Bodies or the governments of respective states apart from which all the other are levied and collected by the Department of Revenue of the Finance Ministry of the Government of India. Over a period of about 15 years, the tax system in the nation has undergone a lot of significant changes. The slabs for the imposition of taxes have been modified and the rates at which any particular tax is being levied have been restructured. All the reformations targeted Easy payment of taxes and better compliance. 1st of April, 2005 saw a major change in the tax methodology with the introduction of Value Added Tax (VAT). Reforms and Restructuring of the Taxation System is still in progress in the country.

1.2 Passing of the GST Bill by the Lok Sabha and Rajya Sabha

On March 27, 2017 the Finance Minister Mr. Arun Jaitley tables Central GST, Integrated GST, Union Territory GST and Compensation bills in Parliament. Lok Sabha and Rajya Sabha passed all the four key GST Bills i.e Central GST (CGST), Integrated GST (IGST), State GST (SGST) and Union Territory GST (UTGST). In continuation of this on May 18, 2017 GST Council fits over 1,200 goods in one of the four tax slabs of 5, 12, 18 and 28 %. Over 80% of goods of mass consumption either exempted or taxed under 5% slab. The GST Council fixes cess on luxury and sin goods to create kitty for compensating states. On May 19: GST Council decides on 5, 12, 18 and 28% as service tax slabs. However all states except Jammu and Kashmir pass SGST law. (Courtesy: https://www.thehindubusinessline.com/economy/gsts-17year-timeline/article9743284.ece)

2. Research Methodology

The Researchers used an exploratory research technique based on past literature from respective journals, annual reports, newspapers and magazines covering wide collection of academic literature on Goods and Service Tax. According to the objectives of the study, the research design is of descriptive in nature. Available secondary data was extensively used for the study.

3. Objectives of the Study

i. To study the Government objectives regarding implementation of GST

ii. To study the impact on traders, manufactures and consumers due to implementation of GST.

iii. To study the actual difficulties faced by the Traders and Manufacturers after the implementation of GST

4. Results and Discussion

The Government developed an elaborative report and presented it in the form of an Act which was eventually passed by the Parliament. Subject to the provisions of sub-section (*2*), of Section 9 of the Central GST (Act) there shall be levied a tax called the central goods and services tax on all intra-State supplies of goods or services or both, except on the supply of alcoholic liquor for human consumption, on the value determined under section 15 of the Act and at such rates, not exceeding twenty per cent., as may be notified by the Government on the recommendations of the Council and collected in such manner as may be prescribed and shall be paid by the taxable person. As per section 22 of the Act Every supplier shall be liable to be registered under this Act in the State or Union territory, other than special category States, from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds twenty lakh rupees: Provided that where such person makes taxable supplies of goods or services or both from any of the special category States, he shall be liable to be registered if his aggregate turnover in a financial year exceeds ten lakh rupees. Every person who, on the day immediately preceding the appointed day, is registered or holds a licence under an existing law, shall be liable to be registered under this Act with effect from the appointed day.

Where a business carried on by a taxable person registered under this Act is transferred, whether on account of succession or otherwise, to another person as a going concern, the transferee or the successor, as the case may be, shall be liable to be registered with effect from the date of such transfer or succession. Notwithstanding anything contained in sub-sections (*1*) and (*3*), in a case of transfer pursuant to sanction of a scheme or an arrangement for amalgamation or, as the case may be, demerger of two or more companies pursuant to an order of a High Court, Tribunal. As per section 10 of the Act Notwithstanding anything to the contrary contained in this Act but subject to the provisions of sub-sections (*3*) and (*4*) of section 9, a registered person, whose aggregate turnover in the preceding financial year did not exceed fifty lakh rupees, may opt to pay, in lieu of the tax payable by him, an amount calculated at such rate as may be prescribed, but not exceeding,—

(*a*) One per cent of the turnover in State or turnover in Union territory in case of a manufacturer,

(*b*) Two and a half per cent of the turnover in State or turnover in Union territory in case of persons engaged in making supplies referred to in clause (*b*) of paragraph 6 of Schedule II, and

(*c*) Nearly Half per cent of the turnover in State or turnover in Union territory in case of other suppliers, subject to such conditions and restrictions as may be prescribed:

Provided that the Government may, by notification, increase the said limit of fifty lakh rupees to such higher amount, not exceeding one crore rupees, as may be recommended by the Council. As per section 12 of the Act the liability to pay tax on goods shall arise at the time of supply, as determined in accordance with the provisions of this section. The time of supply of goods shall be the earlier of the following dates, namely:—

(*a*) The date of issue of invoice by the supplier or the last date on which he is required, under sub-section (*1*) of section 31, to issue the invoice with respect to the supply; or

(*b*) The date on which the supplier receives the payment with respect to the supply:

Provided that where the supplier of taxable goods receives an amount up to one thousand rupees in excess of the amount indicated in the tax invoice, the time of supply to the extent of such excess amount shall, at the option of the said supplier, be the date of issue of invoice in respect of such excess amount. As per section 15 of the Act the value of a supply of goods or services or both shall be the transaction value, which is the price actually paid or payable for the said supply of goods or services or both where the supplier and the recipient of the supply are not related and the price is the sole consideration for the supply. The value of supply shall include–

(*a*) Any taxes, duties, cesses, fees and charges levied under any law for the time being in force other than this Act, the State Goods and Services Tax Act, the Union Territory Goods and Services Tax Act and the Goods and Services Tax (Compensation to States) Act, if charged separately by the supplier;

(*b*) Any amount that the supplier is liable to pay in relation to such supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods or services or both;

(*c*) Incidental expenses, including commission and packing, charged by the supplier to the recipient of a supply and any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services;

(*d*) Interest or late fee or penalty for delayed payment of any consideration for any supply;

(*e*) Subsidies directly linked to the price excluding subsidies provided by the Central Government and State Governments.

Table 1: Changes in the Taxation System Due To GST: 1

S. No	Method under GST	Method under Previous System
1	Applies on Supply of Goods and Services	Applies on Manufacture of Goods or Sale of Goods or on provision of services
2	Based on the Principle of Destination Based Consumption Taxation	Based on the Principal of Origin Based Taxation
3	It would be a dual GST with the Centre and the State levying tax simultaneously	Tax levied and collected by the Centre and the State separately

Source: http://www.gstcouncil.gov.in

As shown in Table 1 the major changes brought out by the implementation of Goods and service tax are that it applies to supply of goods in place of Manufacture of Goods as in the previous Tax System. Secondly it is based on the Principle of Destination Based Consumption and not the Origin Based Scenario and the last and the most important one is that it is a dual GST with the Centre and the State levying tax simultaneously and not at different intervals.

Table 2: Changes in the Taxation System Due To GST: 2

S.No	Taxes replaced by GST	Taxes subsumed by GST
1	Central Excise Duty	State VAT
2	Duties of Excise (Medicinal and Toilet Preparations)	Central Sales Tax
3	Additional Duties of Excise (Goods of Special Importance)	Purchase Tax
4	Additional Duties of Excise (Textiles and Textile Products)	Luxury Tax
5	Additional Duties of Customs (commonly known as CVD)	Entry Tax (All forms)
6	Special Additional Duty of Customs (SAD)	Entertainment Tax (except those levied by the local bodies)
7	Service Tax	Taxes on advertisements
8	Cesses and surcharges insofar as they relate to supply of goods or services	Taxes on lotteries, betting and gambling
		State cesses and surcharges insofar as they relate to supply of goods or services

Source: **http://www.gstcouncil.gov.in**

4.1 Impact of Implementation of GST as Claimed by the Government

(i) Will help to create a unified common national market for India, giving a boost to Foreign investment and "Make in India" campaign;

(ii) Will prevent cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;

(iii) Harmonization of laws, procedures and rates of tax;

(iv) It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;

(v) Ultimately it will help in poverty eradication by generating more employment and more financial resources;

(vi) More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports;

(vii) Improve the overall investment climate in the country which will naturally benefit the development in the states;

(viii) Uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-State sales;

(ix) Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a "Manufacturing hub".

4.2 Impact of GST on Small Business

Small business will witness a complete transformation of the taxation system with the implementation of the goods and service tax (GST). This system shall be more transparent, more paperless, but requires more compliance as well. Approximately the number of additional returns that would be required ranges to almost 36 per year on a single registration.Hence, the small taxable person should be taken care of, to avoid unnecessary burden on him.

4.3 Favourable Impact of GST on Traders and Manufacturers

i. **One Tax*:*** Under the pre GST System there were various kind of taxes such as excise duty, Service tax, VAT, Entry tax, Central Sales Tax etc. But in the present GST regime there is only one tax i.e. Goods and Service Tax however, there will be three parts such Central GST, State GST, Integrated GST. This is a major relief for the manufacturer.

ii. **Transition from Manufacture to Supply**: Under the pre GST System a big question was whether the transaction can be called "Manufacture" or not but GST has replaced the term Manufacture with "Supply", hence the complications have been removed.

iii. **Composition levy Increased:** The biggest benefit from the traders point of view is that the limit under the pre GST taxation system which was 40 lakhs under the Composition Scheme has been raised to 50 Lakhs.

iv. **No separate Dealer Registration is required :** Another major benefit that has been conferred from the traders point of view under GST is that they are not required to have a separate dealer registration due to which unlike under the pre GST system where the trader who wanted to pass on the CENVAT Credit of excise duty needed to obtain dealer registration but now he is eligible to take credit .

v. **Minimized Complication:** In GST Regime of tax structure there will be minimization of trade barriers, such as filing of entry permits. Compliance under entry tax will be abolished. There is much compliance in current regime on interstate movements or locally such as way bills, statutory forms etc which lead to slow movements of goods where as this concept is going to be abolished though check points will still be eligible.

vi. **State Wise Registration:** Generally it has been observed that many manufacturers have two premises of factory within same locality or in same state and they are liable to take separate registration for each factory. But in the GST Regime, registration is not factory wise but it has to be taken state wise. This will abolish the difficulties which have been faced due to separate registration.

4.4 Major Issues Associated With GST

i. **Post Demonetisation Impact:** It has not been even a year when the 1000 and 500 rupee notes which were the two major circulated currencies were declared as illegal tender money. The Economy was still recovering from its impact. Due to Demonetisation there was a sudden decline in the consumer demand, scarcity of hard cash, new withdrawal procedures and changing banking regulations and now it was GST. The Traders and Manufactures and even the Consumers needed time to react and adjust to the changing scenario.

ii. **Drawbacks of Sudden Implementation:** A major difficulty in the Implementation of GST has been a weak understanding of the GST Provisions by the Manufacturers and Traders. Poor understanding of GST has led to excessive reliance on the consultants which has been burdensome specially for small traders.

iii. **Literacy Level of Small Traders:** Though the government has been providing regular online help for GST Compliance and has also organized several awareness campaign for GST Literacy even then looking at the Literacy level of mostly small and marginal traders the implementation looks a difficult job.

iv. **Concerns relating to the Autonomy of the State Government :** India has introduced not a single federal GST but a dual GST, levied and managed by different administrations. The Centre will administer the central GST and the States, the SGST.

The monitoring of compliance will also be done independently at the two levels. Moving to a GST regime in federal setup will mark some curtailment of state's freedom. "All goods and services will be divided into certain categories. The rates will be fixed by category, and a state, cannot shift a commodity from a lower to a higher rate, or put it in the exempt category.

5. Conclusions and Suggestions

GST has made a fundamental shift from an origin-based tax to a destination-based one, which will ensure that India is a single-market. Now the companies will no longer plan their warehouses based on tax rates in different states hence the costs will be rationalised. As in any ambitious tax proposal, there are serious flaws that need fixing, and governments have several months to fix this. A lot of GST Literacy is required to equip the traders and manufactures. Several amendments will come in due process and it will be a big course especially for small and marginal traders. But still looking at the benefits the drawbacks can be overcome in due course. In order to ensure smooth implementation of the GST Process the following are the recommendations.

i. Extensive GST Awareness Drive for Traders and Manufacturers
ii. Training Workshops for Online Management System
iii. Simplification of the process
iv. Compulsory Certificate course on GST Application and Implementation at Higher Education Level

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