

## “GST AND INDIRECT TAX: IMPLICATION AND CHALLENGES”

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### Abstract

Recently India witnessed a change in its indirect tax regime. There was much of chaos in the country as people did not have much knowledge and understanding for this new system, i.e. GOODS AND SERVICE TAX (GST). The Goods and Services Tax (GST), implemented on July 1, 2017. The primary objective behind development of GST is to subsume all sorts of indirect taxes in India like Central Excise Tax, VAT/Sales Tax, Service tax, etc. and implement one taxation system in India. The GST based taxation system brings more transparency in taxation system and increases GDP rate from 1% to 2% and reduces tax theft and corruption in country. This paper an attempt to presented the background of the taxation system, the GST concept along with significant Working, and also presented in-depth coverage regarding advantages to various sectors of the Indian economy after levising GST and outlined some challenges and impact of GST and its implications. This study is qualitative nature based research.

**Keywords:** GST, indirect tax, advantages, challenges, implication.

### INTRODUCTION

India preceding had a dual system of taxation of goods and service which was quite different from the current dual GST system. In India, the thought of GST was conceive, in 2004 by Kelkar Committee. The Kelkar Committee was introduced the dual GST system the committee was incline that they will be able to tax almost all the goods and services which will upgrade, revenue for the government. GST is a major reform in tax structure in India where there are lots of issue related to transparency is important. In any country the main basis of revenue is the tax and for good economic development, it is necessary to have good taxation system.

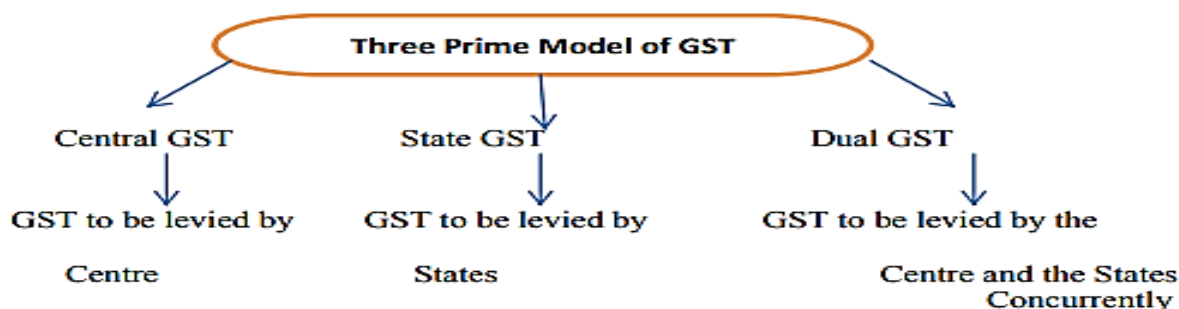
### ABOUT GST

- Recently, **Good and Services regime** completed 2 year since its enactment on July 1, 2017.
- GST is a destination-based indirect tax and is levied at the final consumption point. Under it, the final consumer of the goods and services bear the tax charged in the supply chain.
- GST is a transparent and fair system that prevents black money and corruption and promotes new governance culture.

- **The Central and State taxes to be endorsed in GST are as follows: -**

| Central tax                                                                               | State tax                                                    |
|-------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| Central excise duty                                                                       | State vat                                                    |
| Excise duty (Materials).                                                                  | Central Sales Tax                                            |
| Additional Excise Duties (Of special importance Items and clothing and clothing products) | Purchasing tax                                               |
| Additional customs duty                                                                   | Insurance tax                                                |
| Special additional customs duty                                                           | Entry tax (all types)                                        |
| service tax                                                                               | Entertainment tax (by local bodies Extra from taxes levied). |
| Unrecorded topics of quantity or service and Charge                                       | Advertisement tax                                            |
|                                                                                           | Drafting, betting and gambling                               |
|                                                                                           | State e-commerce and charge                                  |

**THREE PRIME MODEL OF GST:**



**GST RATES SLAB:**

Goods and services are divided into five different tax slabs for collection of tax - 0%, 5%, 12%, 18% and 28%. However, petroleum products, alcoholic drinks, and electricity are not taxed under GST and instead are taxed separately by the individual state governments, as per the previous tax regime. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition a cess of 22% or other rates on top of 28% GST applies on few items like aerated drinks, luxury cars and tobacco products. Pre-GST, the statutory tax rate for most goods was about 26.5%, Post-GST; most goods are expected to be in the 18% tax range.

**Example:**

| Current System (Cascading taxes)                              | GST (avoidance of double taxation)                            |
|---------------------------------------------------------------|---------------------------------------------------------------|
| Machine Manufactured in Mumbai and sold in Pune @ Rs 10,000/- | Machine Manufactured in Mumbai and sold in Pune @ Rs 10,000/- |
| VAT 10% = ₹ 1000                                              | CGST 5% = ₹ 500<br>SGST 5% = ₹ 500                            |
| Same Machine sold from Pune to Delhi @ Rs. 25,000/-           | Same Machine sold from Pune to Delhi @ Rs. 25,000/-           |
| Central Sales Tax @ 10% = ₹ 2500                              | IGST = 10% = ₹ 1500<br>(i.e. ₹ 2500 - CGST - SGST)            |

**ADVANTAGES OF GST:**

- ✓ **Unified National Market:** It is a step towards “One Country, One Tax, One Market” providing a relatively stable tax regime which will give boost to foreign investment and Make in India.
- ✓ **Impact on economy** - It is estimated to increase the GDP growth by 1.5 to 2%. Inflation in general for goods is going to be reduced due to removal of cascading effect as well as lower rates than present regime for most of them.
- ✓ **No Cascading effect:** GST prevents cascading of taxes as it is a destination based consumption tax & Input Tax Credit is available across goods and services at every stage of supply.
- ✓ **Ease of doing business:** Harmonization of laws, procedures and rates of tax, will improve environment of compliance as all returns to be filed online, input credits to be verified online reducing need to deal with different tax authorities. It would also discourage mere 'invoice shopping'.

- ✓ **Reduce Tax Evasion:** Uniform SGST and IGST rates will reduce incentive for evasion because of
  1. Elimination of rate arbitrage between neighbouring States and that between intra and inter-state sales as integrated GST rate would be applicable
  2. Self-policing feature' of tax being levied on the value added to a good or service.
  3. Reduction in compliance costs due to simplification as no multiple record keeping for a variety of taxes because 17 taxes and cesses is merged into one
- ✓ **Impact on consumer** - Half the consumer price index basket, including foodgrains, will be attract zero tax rate, thus enabling them to be part of GST chain but without burdening consumers.
- ✓ **Abolition of Checkpost at state border has reduced logistics and inventory cost.**

#### CHALLENGES OF GST:

1. **Digital infrastructure:**

Availability of bandwidth for digital connectivity all over India to conduct electronic transfers and payments properly.
2. **Issue of Parliamentary and Legislative autonomy:**

GST Council (an executive body) will finalize a vote by a majority of not less than three-fourths of weighted votes of members present and voting (Centre to have 33% and states to have 66% weight of the total votes cast).
3. **Federalism:**
  - The states are giving up much of their most important power – 'to impose taxes' autonomously. States will no longer be able to change their tax rates individually. As both Centre and State is vested with power to make law on GST under Art. 246(A) unlike existing regime, both centre and state will have to work together which may create workspace challenge.
  - Urban local bodies will have to deal with a huge fiscal gap once local body tax, octroi and other entry taxes are scrapped for GST system.
4. **List of Exclusions & different rates :**

Much exclusion like petroleum products, diesel, petrol, aviation turbine fuel, alcohol etc. & 4 different rates are undermining the principle of One Country, One Tax.
5. **Pressure due to increased taxes :**

Small companies with a turnover of Rs. 10 lakh will have to pay GST as opposed to currently Rs. 1.5 crore. Even unorganized sector, biggest job creator, may loose its competitive edge. They may have to raise prices to stay profitable.
6. **For consumers:**

Benefits from reduced cost due to lower taxes may not be passed on to them. Also, some are seeing GST as a regressive system of taxation as it more or less equalizes taxation across products which mean that rich will pay less tax on luxury goods and services and poor will pay more for basic goods and services

#### IMPACT OF GST AND ITS IMPLICATIONS

1. **Price reduction:**
  - Unification of different indirect taxes under GST will give boost to the existing tax-credit system, which will drive tax efficiency for manufacturers, wholesalers and also for consumers of goods. This will decrease the overall cost incurred by manufacturing sector which will reflect in various inflation indices in long-term. GST could have a negative impact on service sector, which contributes over 50% of Indian GDP. The existing Service Tax of 15% would surge to Goods and Service Tax rate which is anticipated at 18-20%. But at the same time, in current tax framework service sector is unable to enjoy tax-credit on VAT and Sales Tax, which is likely to change in favour of service providers after GST implementation. However, this might be lost if the GST rate is higher than anticipated.
2. **Less Compliance and Procedural Cost:**

The cost of collecting various taxes, maintaining big records and their respective reports by the government bodies would see a definite decrease as these taxes would come under one big umbrella of GST.
3. **Pricing and Profitability:**

The resultant tax expenditure after GST bill being passed would have a direct impact on pricing and profitability of different goods and services which will vary across different sectors. Given that Margin and Price Bands would also be re-examined, decline in prices is probable, which will have direct impact on consumer demand.

4. **Government Revenue:**

Despite the expected change in pricing, the government is expected to set GST @ revenue neutral rate, so there might be no significant change in Government Revenue.

5. **Cash Flow:**

Goods and Service Tax is set to boost cash flows through the removal of concept of excise duty. Being a consumption-based tax, GST would now be collected at the time of sale/supply over current tax predicament of tax being collected at the production/removal of goods.

6. **Redress Location Bias:**

This would enable uniformity through states and would not let investors discriminate states on basis of tax advantage. The only thing that would drive investor's capital will be profitability, cash flows, and performances promoting smaller businesses and entrepreneurship without location bias.

7. **Uniform Per Capita Taxation:**

As mentioned above, Goods and Service Tax being destination-based consumption tax would allow poverty stricken states like Bihar to increase its tax revenue. As GST would be paid to states where the consumption of goods takes place, the states' tax revenue would be driven by population (more the population, more the consumption) rather than number of businesses/industries. This would ultimately even out the tax per capita of each state.

8. **Fight Tax Evasion:**

Another perk of being destination based system, Goods and Service Tax Framework would ideally reduce tax evasion by large extent and promote use of bills and invoices.

## CONCLUSION

A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The proposed GST levy may potentially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing. The GST has helped us transition from "one nation, many taxes" to "one nation, one tax". It has been a wonderful lesson in co-operative federalism, one which is in the process of transforming India into a common market by bringing about economic integration in an already integrated polity. GST is still a work in progress and the next important step would be to bring the excluded items, especially electricity, real estate and petroleum products, within its ambit.

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