9. *"A Theoretical Study of GST Reforms in India"*

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ABSTRACT: *Indian economy is in a face of one of the most powerful and impact making tax reform with reference to indirect taxes that are being charge and collected from the consumers, under the name of goods and service tax. The proposed implementation of GST in India will change the working and lives of individual, traders, corporate business houses, government and all stake holder of economy. This made us curious to study and research upon the history and the planned execution of GST in India. No country or economy can work in isolation thus it was equally important for us to compare the GST norms, rates and practices in India with other major economies in the world. We also tried to study the potential barrier and challenges that the economy would be facing during the initial phase of implementation of GST in India.*

KEY WORDS: GST, India, Economic reform, taxation

INTRODUCTION

Goods & Services Tax is a comprehensive, multi-stage, destination based tax that will be levied on every value addition. Goods and Services Tax (GST) would be 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, it would mitigate cascading or double taxation in a major way and pave the way for a common national market. From the consumer point of view, the biggest advantage would be in terms of a reduction in the overall tax burden on goods, which is currently estimated to be around 25%-30%. Introduction of GST would also make Indian products competitive in the domestic and international markets. 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.

Modus Operandi: *HOW IS GST APPLIED?*

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 collected on value-added goods and services at each stage of sale or purchase in the supply chain. GST paid on the procurement of goods and services can be set off against that payable on the supply of goods or services. The manufacturer or wholesaler or retailer will pay the applicable GST rate but will claim back through tax credit mechanism. But being the last person in the supply chain, the end consumer has to bear this tax and so, in many respects, GST is like a last-point retail tax. GST is going to be collected at point of Sale. The GST is an indirect tax which means that the tax is passed on till the last stage wherein it is the customer of the goods and services who bears the tax. This is the case even today for all indirect taxes but the difference under the GST is that with streamlining of the multiple taxes the final cost to the customer will come out to be lower on the elimination of double charging in the system.

Let us understand the above supply chain of GST with an example:

Current law	Amount		GST	Amount
Sale price of manufacturer	100		Sale price of	100
Excise duty @ 12.5%	12.5		GST (Central + State)	20
VAT @ 14.5%	16.31		NA	
Sale price of distributor	122.5		Sale price of distributor	110
VAT @ 14.5%	17.76		GST (Central + State)	22
Sale price of retailer	127.50		Sale price of retailer	115
VAT @ 14.5%	18.49		GST (Central + State)	23
Total	145.99		Total	138

The current tax structure does not allow a business person to take tax credits. There are lot of chances that double taxation takes place at every step of supply chain. This may set to change with the implementation of GST.

BENEFITS OF GST

(A) Make in India:

(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".

(B) Ease of Doing Business

(i) Simpler tax regime with fewer exemptions

(ii) Reductions in the multiplicity of taxes that are at present governing our indirect tax system leading to simplification and uniformity

(iii) Reduction in compliance costs - No multiple record keeping for a variety of taxes - so lesser investment of resources and manpower in maintaining records

(iv) Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments etc

(v) All interaction to be through the common GSTN portal- so less public interface between the taxpayer and the tax administration (vi) Will improve environment of compliance as all returns to be filed online, input credits to be verified online, encouraging more paper trail of transactions

(vii) Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to taxation system

(viii) Timelines to be provided for important activities like obtaining registration, refunds etc

(ix) Electronic matching of input tax credits all-across India thus making the process more transparent and accountable.

(C) Benefit to Consumers:

(i) Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and service supplier

(ii) It is expected that a relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under a compounding scheme- purchases from such entities will cost less for the consumers

(iii) Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.

DIFFERENCE BETWEEN INDIAN GST AND GST OF OTHER COUNTRIES?

We are discussing here, how Indian GST is differing from GST of other countries. More than 150 countries in the world have GST system of tax collection. In India we do not follow an ideal VAT. In central, we follow central VAT. In state, we follow state level VAT. Same is the case with GST. We do not follow ideal GST which all indirect taxes will be subsumed in to one. We follow an Indian version of Goods and services tax called as all India goods and services tax. Central sales tax which the central imposed on the sale of goods from one state to another will continue in the different form called Integrated GST. One of the major differences between GST in India and GST in other countries is that in India, two types of GST is charged (duel GST).

REASONS FOR CHARGING TWO ELEMENTS OF GST INSTEAD OF ONE GST IN INDIA?

India is a federal country where both the Central and the States have been assigned the powers to levy and collect taxes through appropriate legislation. Both the levels of Government have distinct responsibilities to perform according to the division of powers prescribed in the Constitution for which they need to raise resources. A dual GST will, therefore, be in keeping with the Constitutional requirement of fiscal federalism. There are some items exempted from GST at present. The major items exempted from GST are Alcoholic liquor for human consumption, Aviation turbine fuel, Diesel, Petrol etc. In other words, GST council has to decide when those items should be covered under GST. If those items excluded from GST, again the purpose of GST is defeated. Because, state government gets 40% revenue from these items. So we can call this GST as Indian GST, as it differs from GST of other countries. These are some issues related to GST.

A constitutional amendment required to give concurrent power to both state and central to make laws for the taxation of GST. In Indian case, there will be a dual GST. Central GST comes under central and State level GST comes under each state of India. The central level VAT comes under central GST and state level VAT comes under state GST and will also have integrated GST. There are some items exempted from GST at present.
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Globally, VAT is a more common and noticeable tax than the GST, with both being based on similar principles of value addition at different levels of the supply chain and levied on the consumer. Australia, Canada, Singapore and Pakistan are some of the GST appliers. Most countries, while imposing VAT, have not been able to entirely do away with other indirect taxes. Various other duties continue to exist. A common rate of VAT or GST of x% does not mean that the burden on consumers is limited to x% only; in most cases, the burden is x+% with the '+' substantive in many cases. Most countries, while imposing VAT, have not been able to entirely do away with other indirect taxes. Various other duties continue to exist. A common rate of VAT or GST of x% does not mean that the burden on consumers is limited to x% only; in most cases, the burden is x+% with the '+' substantive in many cases. The standard rate of VAT/GST varies widely across countries. In India, this has been a subject of intense debate with the eventual decision to cap the rate at 17 per cent. There are views that the rate might not be adequate for guaranteeing states sufficient revenues.

The international scenario in this regard is diverse (see accompanying table). While there are large country-specific variations, Europe & CIS countries as a region reflect the highest standard rate. Within this region, Scandinavian countries have standard rate of 25 per cent, which is among the world's highest, followed closely by Uruguay and Argentina from the Latin American region with rates of 22 per cent and 21 per cent respectively. The Indian revenue neutral rate (RNR) rate of 17 per cent, if fixed at that, will be well above the regional averages in

Asia. Indeed, Southeast Asia has an average rate of only 7.7 per cent with the highest being 12 per cent in Philippines.

The low rate for the region is easily explained by the high volume of intra-industry among countries of the region. High VAT/GST rates would make raw materials and intermediates more expensive at every stage of the production process making the final product price high for the consumer. Such a tax system would be detrimental for the global comparative advantages of producers from the region for various categories of industrial and processed items. This is in contrast to Scandinavian and other European countries that apply high VAT rates largely on redistributive grounds and also for funding social security mechanisms.

The Southeast Asian experience would point to the importance of keeping the mean rate low for ensuring global competitiveness of Indian producers. This is important given that even after GST, there would still be additional taxes on petroleum products and electricity services. China has a relatively higher standard VAT rate of 17 per cent. This applies to goods with a separate business tax levied on services. China is working on replacing business taxes by VAT and is expected to cover all major services including construction and real estate by the end of this year. This would, however, imply an indirect tax system with multiple VAT rates for goods and services.

The disadvantage, which a relatively high rate of VAT and multiple taxes could have caused for exporters, has been partly compensated by cheap export credit and input subsidies. The difference in VAT rates between China and Southeast Asia also partly explains why China heavily imports semi-finished items from the latter, which are much cheaper than those at home, and assembles them in the mainland for exporting to the West.

The international experience points to the realization that till GST becomes the only single overarching tax replacing all other indirect levies, the consumer might experience fairly high burdens. Indeed, Malaysia and Hong Kong have had great resistances to GST for their effect on consumer prices and the latter has succeeded in staying away from GST. The key to an effective GST that stimulates production and also protects purchasing power is its rate. For India, closer the rate gets to 17%, greater is the possibility of losing competitiveness in global markets.

SUGGESTIONS:

Based on our personal view & opinions, we feel there are a few area of concern which would require special attention to assure GST rool is implemented successfully, the same are discussed below Presently, the tax structure of India is very complex. Looking to the global developments and tax structure of developed countries, GST is the need of the hour. The need of GST can further be explained in the following points:-

- There are various definitional issues related to manufacturing, sale, service, valuation etc. arises. These needs to be rationalized.
- Several transactions take the character of sales as well as services, thus there is complexity in determining the nature of transaction.
- The mechanism of imposing taxes, exemptions, abatements, other benefits are different in state and centre
- Existing law has resulted in significant number of issues related to interpretation or various provisions and the category of the products and the nature of services.
- Administration mechanics of the centre and state and even in different states is different.
- India needs comprehensive levy and collection on both goods and services at the same rate with the benefit of input credit
- A simple tax structure can bring greater compliance, thus increasing number of tax payers and in turn tax revenues of Government.
- GST will ensure competitive pricing. Tax paid by final consumer will come down in most cases. Lower prices will help in boosting consumption which is beneficial to Companies.
- GST will ensure boost to exports. When the cost of Production falls in the domestic market, Indian Goods and services will be more price competitive in foreign markets
- The current state of Indian Economy demands fiscal consolidation and reduction in Fiscal deficit. A recent Report By CRISIL states that GST is the country's best bet to achieve fiscal consolidation.

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