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GST In India: An enrichment of indirect taxation system

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Abstract
This paper is an analysis of what the impact of GST (Goods and Services Tax) will be on Indian Tax Scenario. The authors have stated with a brief description of the historical scenario of Indian taxation and its tax structure. Then the need arose for the change in tax structure from traditional to GST model. GST has be detailed discuss in this paper by the authors as the background, silent features and the impact of GST in the present tax scenario in India.
Its concepts and impacts are analyzed with various aspects and techniques. Analyzing it with the help of CGE is at introduction stage and this paper assesses different literatures on it to find out CGE application in GST by examining 21 research papers of the period 1989- 2012. The major finding of the paper is that CGE is mostly used for welfare effect of GST and various aspects are still waiting to open.

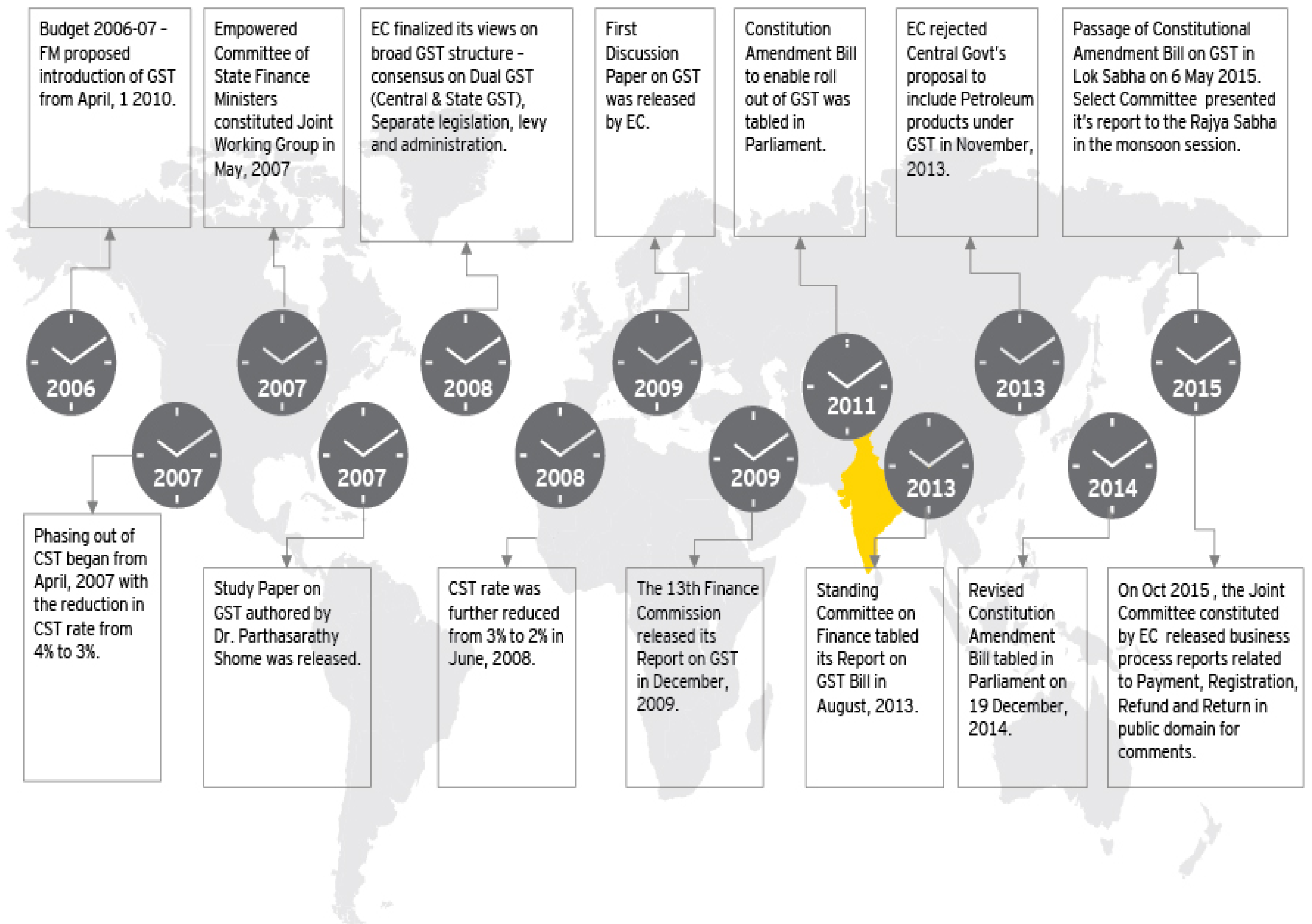
Keywords: Goods and Services Tax, Value Added Tax, Central Value Added Tax, Impact of GST.

Introduction
The Constitution (122nd) Amendment Bill, 2014 for Goods and Services Tax (GST) in the Lok Sabha on 6th May, 2015, the Government of India seems committed to replace all the indirect taxes levied on goods and services by the Centre and States and implement GST by 2016. With GST, it is anticipated that the tax base will be comprehensive, as virtually all goods and services will be taxable, with minimum exemptions.
GST will be a game changing reform for Indian economy by developing a common Indian market and reducing the cascading effect of tax on the cost of goods and services. It will impact the Tax Structure, Tax Incidence, Tax Computation, Tax Payment, Compliance, Credit Utilization and Reporting leading to a complete overhaul of the current indirect tax system.
GST will have a far reaching impact on almost all the aspects of the business operations in the country, for instance, pricing of products and services; supply chain optimization; IT, accounting and tax compliance systems.

Latest on GST
- The Joint Committee has proposed common e-return for CGST, SGST, IGST and additional tax.
- The Joint Committee, constituted by the Empowered Committee of State Finance Ministers, has made suitable recommendations for registration, payment and refund processes under GST.

Are you ready for the change?
GST would bring in significant change in doing business in India. Advocacy for best practices, gearing up for changes in processes, training teams and developing IT systems for being GST compliant are the key areas to be assessed.

GST: The story



Time is of the essence

Government is committed to introduce GST by 2016 and the companies need to be GST compliant to be able to test system changes in time. Depending on the operating geographies, size and sector and the changes would be substantial and may require a proactive planning with a time bound action plan.

In order to prepare for the implementation of GST, the companies need to understand the GST policy development and its implications to scenario planning and preparing a transition roadmap

The road map ahead

- After the Select Committee submitted its report to the Rajya Sabha in the monsoon session, the Government awaits passage of the Bill in the Rajya Sabha in the winter session the passage in Rajya Sabha will require two-third majority.
- The Bill thereafter will be needed to be ratified by minimum of 15 States in their respective assemblies before the President can give its assent for its enactment.
- GST Council consisting of representatives from the Centre as well as State will be formed within 60 days of the enactment of the Bill. The council will make recommendations to the Union and the States on model Goods & Service Tax laws, the rates including floor rates with bands of goods & service tax, the Place of Supply rules and any other matter relating to GST as the Council may decide Reports of Joint Committee constituted by Empowered Committee of the State Finance Ministers on business processes of payment, registration refund and return under GST have been released and put in public domain for suggestions.
- The draft GST Law and Place of Supply Rules are expected to be framed and put in the public domain for comments.
- GST Network, an IT backbone of GST, which will facilitate online registration, tax payment and return filing will be launched.
- States will frame their respective GST Legislations to enable them to implement GST. It will be in line with the Central GST Legislation.

Salient features of proposed Indian GST system

- The power to make laws in respect of supplies in the course of inter-State trade or commerce will be vested only in the Union government. States will have the right to levy GST on intra-State transactions including on services.
- Centre will levy IGST on inter-State supply of goods and services. Import of goods will be subject to basic customs duty and IGST.
- GST defined as any tax on supply of goods and services other than on alcohol for human consumption.
- Central taxes like, Central Excise duty, Additional Excise duty, Service tax, Additional Custom duty and Special Additional duty and State level taxes like, VAT or sales tax, Central Sales tax, Entertainment tax, Entry tax, Purchase tax, Luxury tax and Octroi will subsume in GST.

- Petroleum and petroleum products i.e. crude, high speed diesel, motor spirit, aviation turbine fuel and natural gas shall be subject to the GST on a date to be notified by the GST Council.
- 1% origin based additional tax to be levied on inter-State supply of goods will be non-creditable in GST chain. The revenue from this tax is to be assigned to the Origin State. This tax is proposed to be levied for initial two years or such period as recommended by the GST Council.
- Provision for removing imposition of entry tax / Octroi across India.
- Entertainment tax, imposed by States on movie, theatre, etc will be subsumed in GST, but taxes on entertainment at panchayat, municipality or district level to continue.
- GST may be levied on the sale of newspapers and advertisements and this would give the government's access to substantial incremental revenues.
- Stamp duties, typically imposed on legal agreements by the state, will continue to be levied by the States.
- Administration of GST will be the responsibility of the GST Council, which will be the apex policy making body for GST. Members of GST Council comprised of the Central and State ministers in charge of the finance portfolio.

Concept of GST

GST is a value added tax, levied at all points in the supply chain with credit allowed for any tax paid on inputs acquired for use in making the supply. It would apply to both goods and services in a comprehensive manner with exemptions restricted to a minimum.

In keeping with the federal structure of India, it is proposed that GST be levied concurrently by the Centre (CGST) and the States (SGST). It is expected that the base and other essential design features would be common between CGST and SGST, across SGSTs for the individual States. Both CGST and SGST would be levied on the basis of the destination principle. Thus, exports would be zero-rated, and imports would attract the tax in the same manner as domestic goods and services. Inter-State supplies within India would attract an Integrated GST (aggregate of CGST and the SGST of the destination State).

In addition to the IGST, in respect of supply of goods, an additional tax of up to 1% has been proposed to be levied by the Centre. The revenue from this tax is to be assigned to the origin states. This tax is proposed to be levied for initial two years or such longer period as recommended by the GST Council.

Benefits of GST

GST has been envisaged as a more efficient tax system, neutral in its application and distributionally attractive. The advantages of GST are:

- Wider tax base, necessary for lowering the tax rates and eliminating classification disputes
- Elimination of multiplicity of taxes and their cascading effects
- Rationalization of tax structure and simplification of compliance procedures
- Harmonization of center and State tax administrations, which would reduce duplication and compliance costs
- Automation of compliance procedures to reduce errors and increase efficiency

Destination principle

The GST structure would follow the destination principle. Accordingly, imports would be subject to GST, while exports would be zero-rated. In the case of inter-State transactions within India, the State tax would apply in the State of destination as opposed to that of origin.

Taxes to be subsumed

GST would replace most indirect taxes currently in place such as:

Central Taxes	State Taxes
Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] Service tax Additional Customs Duty (CVD) Special Additional Duty of Customs (SAD) Central Sales Tax (levied by the Centre and collected by the States) Central surcharges and cesses (relating to supply of goods and services)	Value Added Tax Octroi and Entry Tax Purchase Tax Luxury Tax Taxes on lottery, betting & gambling State cesses and surcharges Entertainment tax (other than the tax levied by the local bodies) Central Sales Tax (levied by the Centre and collected by the States)

Impact on GST

GST would be one of the most significant fiscal reforms of independent India. GST is expected to result in major rationalization and simplification of the consumption tax structure at both Centre and State levels. It is expected to replace all indirect taxes, thus avoiding multiple layers of taxation that currently exist in India.

Depending on the final GST base and rate, there will be a significant redistribution of tax across different goods and services. Goods currently subject to both Centre and State taxes should experience a net reduction in tax, with positive impact on consumer demand.

Besides simplifying the current system and lowering the costs of doing business, GST will call for a fundamental redesign of supply chains. It will affect how the companies operate their businesses, presenting significant opportunities for long-term revenue and margin improvement.

For instance, under the current tax structure, supply chains are invariably designed to minimize the burden of the Central Sales Tax, with distribution centres located in individual States where the consumers are located. They are sub-optimal from a strategic and economic perspective. The elimination of the central sales tax will provide an opportunity to optimize supply chains, enabling companies to re-evaluate existing procurement patterns, and distribution and warehousing arrangements.

GST is also expected to result in a reduction in inventory costs. Dealers would be able to claim a credit for the tax paid on their inventories, leading to improved cash flows.

A successful implementation of GST is significantly dependent on IT capability – not just at the tax administration level but also at the taxpayer level. Efforts will be required to change existing IT systems for GST enablement which could be complex, challenging and lengthy task for the IT department.

Summary of key business impacts

Sourcing	• Inter-State procurement could prove viable • This may open opportunities to consolidate suppliers/vendors • Additional duty/CVD and Special Additional duty components of customs duty to be replaced.
Distribution	• Changes in tax system could warrant changes in both procurement and distribution arrangements • Current arrangements for distribution of finished goods may no longer be optimal with the removal of the concept of excise duty on manufacturing • Current network structure and product flows may need review and possible alteration
Pricing and profitability	• Tax savings resulting from the GST structure would require repricing of products • Margins or price mark-ups would also need to be re-examined
Cash flow	• Removal of the concept of excise duty on manufacturing can result in improvement in cash flow and inventory costs as GST would now be paid at the time of sale/supply rather than at the time or removal of goods from the factory.
System changes and transaction management	• Potential changes to accounting and IT systems in areas of master data, supply chain transactions, system design • Existing open transactions and balances as on the cut-off date need to be migrated out to ensure smooth transition to GST • Changes to supply chain reports (e.g., purchase register, sales register, services register), other tax reports and forms (e.g., invoices, purchase orders) need review • Appropriate measures such as training of employees, compliance under GST, customer education, and tracking of inventory credit are needed to ensure smooth transition to the GST regime

The key imperatives for companies are
- Understand key areas of impact in their business.
- Prepare different scenarios for the design and application of GST.
- Continually track policy development regarding GST and update prepared scenarios.
- Identify any areas of adverse impact and prepare contingency measures.
- Identify issues and concerns needing representations to the authorities and develop a strategy for effective advocacy.

Conclusion
To conclude, though 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 commitment for a fundamental tax reform with a constitutional amendment, the switchover to a 'flawless' GST would be a big leap in the indirect taxation system and also give a new impetus to India's economic change. It is also noted that, buoyed by the success of GST, more than 140 countries have introduced GST in some form to other and is fast becoming the preferred form of indirect tax in the Asia Pacific region.

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