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A view of goods and service tax in India: Problems and prospects

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Abstract
India is a federal country where Indirect Tax is levied by Federal and State Government. Value Added Tax is levied by State Governments. Every State has authority to decide the Tax rate and to control the Tax system as per their convenient. The Taxation power has been well defined in Indian Constitution. The Constitution (122nd Amendment) Bill that seeks to usher in a Goods and Services Tax (GST) regime in the country will finally be taken up for discussion in Parliament. Finance Minister Arun Jaitley has been affirming that India will implement GST from 1st April 2016. It can be looked as simplification of Taxes in country and avoiding unnecessary complexities. India is a federal country which has various Tax regimes and structure, where Tax is levied by both Governments. After the implementation of GST all the Indirect Taxes will be subsumed under an umbrella, it will be a milestone in the history of Indirect Tax reform. In this paper, an attempt has been made to examine the major features of GST. This paper has also focused on the problems likely to be faced by Central and State Governments.

Keywords: Central government, goods and service tax, indirect tax, state government and value added tax

1. Introduction

Value Added Tax (VAT) was proposed for the first time by Wilhelm Von Siemens in Germany 1919, as an improved turnover Tax. In 1921, Sales Tax was recommended by Prof. Thomas S. Adams of United State of America. In 1949, the Shoup mission (A group of American Tax experts, under the leadership of Carl S. Shoup) has suggested VAT for the reconstruction of the Japanese economy. Then, France was the first country to implement VAT in 1954.

At present Value Added Tax (VAT) has been implemented by more than 160 countries in the world, even our neighbor country Pakistan is also implementing GST. However, GST is known as “General Sales Tax” in Pakistan. In one of the countries of Africa, it is known as “General Consumption Tax (GCT)”. In various countries (Table-1), all over the world, it is also known by the name of Goods and Service Tax (GST). Where in Australia, Canada, Singapore and New Zealand it is also famous as “GST”. After Brazil (1960) and Canada (1991), India will be the 3rd country which is going to introduce dual GST (levied by both Federal and State Government) structure. There is no difference between GST and VAT except a minor difference that VAT is levied on goods and GST will impose on goods plus services. Again, GST is not an additional Tax; it is subsumed of all Indirect Taxes. This means all Indirect Taxes will come under one umbrella.

Table 1: List of the countries implementing of VAT/GST

Serial No.	Region	Numbers of Country
1	Asean	7
2	Asia	19
3	Europe	53
4	Oceania	7
5	Africa	44
6	South America	11
7	Caribbean, Central & North America	19

Sources: http://gst.customs.gov.my/en/gst/Pages/gst_ci.aspx (as on 14/08/2015)

India is a federal country where Tax is levied by Federal and State Government. The Taxation power has been well defined in Indian Constitution. At present, there are 37 Governments along with (a Central Government, 29 State Governments and 7 Union territories who levy Tax at the different-different Tax rate on the same product. Where Central Government collects Direct Tax as well as Indirect Taxes and State Government collects only Indirect Taxes.

1.1 Direct tax
Direct Tax is a kind of duty, which is charged directly on the Taxpayer and paid directly to the Government by the Taxpayer. It cannot be shifted from one person (Taxpayer) to another. There are several Direct Taxes levied in India are as follows.

1. Income Tax
2. Corporation Tax
3. Property Tax
4. Estate Tax
5. Gift Tax

Indirect tax
An Indirect Tax is one which is imposed on commodity (goods) or services that is paid by the consumer. Indirect Tax is basically collected from intermediary sources such as company, dealer and retailer while the mediator collects Tax from the end user (consumer). It can be shifted from one person to another and is not levied directly. There are some Indirect Taxes are as follows

1 Custom Duty
2 Central Excise Duty
3 Service Tax
4 VAT
5 Entertainment Tax
6 Octroi

2. Review of literature
A number of studies have been conducted to examine various facets to the introduction of the GST. The studies suggested some important issues of GST like Dual GST Tax structure, where Federal and State Government will work mutually. Uniformity in Tax rate and distribution of the Tax between CGST and SGST etc. remain in the system. M. Govinda Rao, (2009) has found that GST is not a new Tax. It is only the further improvement over the existing consumption Tax system at the Central and States level. At present Federal and State Government levy Service Tax and VAT respectively and GST will be subsumed of all Indirect Tax. While some of the important shortcomings of the proposed GST are summarized in the following- Reforming the consumption Tax system, List of exempted goods and services. Management of the Tax system, what will be the rate of Tax and who will decide the Tax structure etc?
G.C. Ruggeri & K. Bluck (1990) have examined that the Canada Federal Government implemented the GST as a replacement of the Manufacturers' Sales Tax (MST) in 1989. The study has focused the comparison between MST and broad-based VAT. They found VAT is more regressive than that of MST and at the same time GST is also found to be more regressive than MST. This weakness of GST can be reduced if Tax rate will be in progressive form, which indicates lower income credit financed by a high-income class pay surtax or higher GST rate.

Amol Agarwal (2011) has studied the impact of GST on the Indian economy. In his study, he mentioned that Dr. Vijay Kelkar, Chairman of the 13th Finance Commission cited the work of renowned Tax economist Prof. Charles McLure, who identified six characteristics of a well- designed GST in a federal system as given below.

1. Uniformity rate of Taxation within a given jurisdiction, ideally at a single rate.
2. Sales would be Taxed under the destination principle.
3. Low cost of compliance and administration.
4. Each level of Government to set its own Tax rate subjects to agreed floors
5. A substantively common Tax base for Central and State Governments
6. Substantial Co- operation in Tax administration between all levels of Government

Kelkar added that first two are important for economic reasons; the third for the administrative while the fourth is for political reason along with the last two operates a system of multilevel finance that we have in our county. These principles should be adopted while designing GST in India as well.
Alasdair Roberts & Jonathan Rose (1995) has examined that the Canadian Federal Government campaign communication program in favor of GST to influence public opinion towards GST. It is possible that communications program will be able to get an important influence from public opinion. It will also help to discuss the controversial issues which include constitutional reform, free trade, environmental and energy policy. The goal of above mentioned GST campaign is to evaluate its efficiency regarding the basis of public opinion. The Department of Finance is also concerned about the political problems created by Bill C- 62 which is clear enough to the counselors, appointed to give advice on its communications strategy. Amaresh Bagchi (2006) has observed a unified Tax on goods and services that discusses about the several difficulties in introducing single national VAT. This will levy and administered only by the federal Government. Otherwise, Tax at the Central level is neither practicable nor desirable for India. Another alternative option is that Government could implement dual GST where Tax rate would be uniform all over India. But for this Central
has to allow the Tax and at the same time State should accept extension of the Tax powers approved by the Central at all stages or vice-versa. But there is neither the discussion about the amendment of Tax in the Constitution and nor mentioned who will decide the Tax rates.

Major problems of the study are

1. Amendment in the Constitution.
2. Uniformity in the Tax rate.
3. Administration of GST, both at the Central and State levels will have to be prepared themselves to deal with transitional issues.
4. The first discussion paper on GST released by the empowered committee does not specify the list of exempted goods and services. The list of goods and services is yet to be concluded and it is quite likely that some discretion may be allowed to individual States.
5. The power of decision making about the Tax rate and collection of Tax. In what percentage and how Government will share Indirect Tax? These are the

major problem for both Governments (CGST and SGST).

6. Regarding the source of awareness to understand and gain knowledge of about GST system, most of the dealers are dependent on Tax consultant.

3. Objective of the study

1 To identify the problems and prospects of GST in India.

Research methodology

The paper is based on secondary sources of data, which have been obtained from various GST implementation discussion papers, published article in journals, web articles (internet sources), past studies and news paper etc. With the help of these secondary sources, attempt has been made to find the obstacles coming on the way of GST and looking for future opportunities of it in India.

GST in India

In India, GST was first time introduced on 28th February 2006 in the Budget Speech of the year 2006-07 by Finance Minister Sh. P. Chidambaram. A message was left by the Finance Minister in the Union Budget 2007-08 that GST will be introduced with effect from 1st April 2010. Central and State Governments will be work together to prepare a roadmap for the introduction of GST in India. They planned to introduce GST or "replacing the previous VAT and Service Tax" on 1st April 2010, but some of the States were not ready to implement the GST. After that on 1st April 2012, again Government was going to introduce GST, but due to some management and infrastructure problems it was not introduced. Finance Minister Arun Jaitley introduced the 122nd Constitution Amendment Bill in Parliament and intends to implement GST reform by 1st April 2016 (Table-2). The advantage of GST is that it will replace Indirect Taxes which are levied by Central and State Government. The GST structure will present a transparent system which will be helpful to reduce the burden of cascading

effect and it will also improve the Tax compliances and Tax collection. GST will prove the uniformity of Taxes in all over the country.

Table 2: Date and proceedings in the introduction of Goods and Services Tax in India.

S. No.	Date	Events or Procedure
1	28th Feb. 2006	FM announces GST in India from 01.04.2010
2	10th May 2007	Joint Working Group set up by Empowered Committee of State Finance Ministers.
3	19th Nov. 2007	Joint Working Group submitted Report to Empowered Committee.
4	28th Nov. 2007	Report of Joint Working Group discussed by Empowered Committee and some changes made.
5	30th Apr. 2008	A view of Empowered Committee was sent to Government of India.
6	12th Dec. 2008	Comments received by Empowered Committee from Government of India.
7	16th Dec. 2008	Comments of Government of India considered by Empowered Committee and Committee were constituted to consider these comments.
8	21st Jan. 2009	Views received by Empowered Committee and principally accepted by Empowered Committee, a Working Group was formed by State/ Central Government Officers to submit recommendations of the structure of Goods and Services Tax Commission.
9	19th Oct. 2009	Interaction between Finance Minister and Empowered Committee for compensation for loss of Revenue to the State for phase out of the Central Sales Tax.
10	10th Nov. 2009	First Discussion Paper released by Empowered Committee.
11 12	15th Dec. 2009 1st Apr. 2012	Report of the Task Force on Goods and Services Tax constituted by the 13th Finance. Federal Government was going to introduce GST, but due to some management and infrastructure problems it was not introduced.
13	26th Dec. 2014	The Government introduced 122nd Constitutional Amendment Bill to the introduction of GST.

Source: http://files.artoffinance.webnode.in/200000010c73a7c7996/A%20comprehensive%20 presentation%20on%20GST%20(%20Goods%20and%20services%20Tax%20).pdf (20/03/2 015)

4. Model of the GST

There are three prime model of GST:

a) GST at Central Government level only
b) GST at State Governments level only
c) GST at both, Central and State Government level

Important features of GST

"First time the discussion on GST in India" exhibits in detail the basic features of its structure and implementation aspect. Of course, some of the details are already known to us and a few others will help to clarify some details of the proposed design. Some of the important features of the proposed GST reform are:

a) This dual GST model would be implemented through a certain number of legal provisions. The GST shall have two mechanisms: one levied by the Centre (CGST), and the other levied by the States (SGST).
b) In the First Discussion Paper on GST released by Empowered Committee has given its recommendations that the Central Taxes and State Government Taxes should be subsumed under the GST.

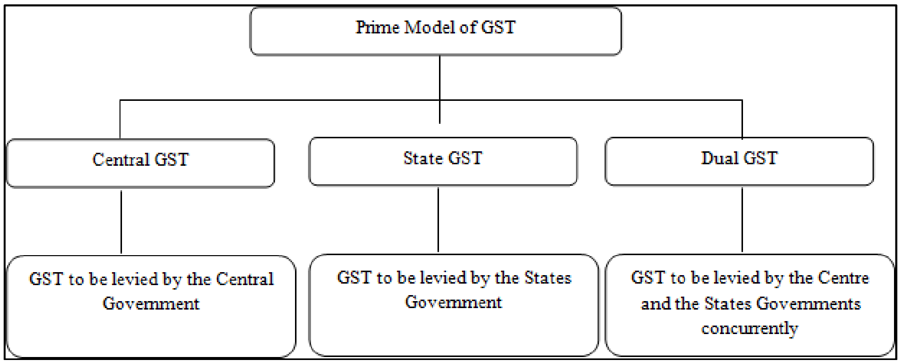

Fig 1: Model of GST

Central Government tax

These Taxes will subsume under Central Goods and Service Tax (CGST).

1. Service Tax
2. Central Excise Duty
3. Additional Excise Duty
4. Excise Duty under Medicinal and Toiletries preparation Act
5. Additional customs duty (Countervailing Duty)
6. Surcharge
7. Cess

State Government Tax (SGST)

The Taxes will come under the State Goods and Service Tax (SGST).

1. VAT/ Sales Tax
2. Entertainment Tax
3. Luxury Tax
4. Taxes on lotteries
5. Betting and gambling
6. Entry Tax
7. Octroi

a) The GST would be applicable to all transactions of goods and services except the exempted goods and services.
   The Empowered Committee has proposed two Tax rate structure for GST- one a low rate for essential items and another standard rate for the remaining goods and services. Proposed rate of GST will be 16% to 20% and a special rate will also be levied on precious metals
b) There will be separate Tax administrations at the centre and the States level. The Central GST and State GST are to be paid to the accounts of the Centre and the States individually.
c) The CGST will have a threshold of ₹1.5 crores and SGST proposed at ₹10 lakhs.
d) Every Taxpayer would be allotted a PAN-linked Taxpayer identification number (TIN) It will be 12-15 digits.
e) Alcoholic product, Tobacco and Petroleum products will not come under the GST. State Government could continue with the VAT and Central Government could also continue its levies.
f) 13th Finance Commission has also announced ₹50,000 crores compensation package for States in case of revenue deficit, there is a concern raised by the States regarding their freedom to levy Tax and increase the Tax rates at their discretion.

Problems with GST

4.4.1 Amendment in the Constitution

Implementation of GST is necessary to perform the Constitutional Amendments for State to levy Service Tax as well as Central Government has the power to enhance revenue from dealers and retailers transaction. Central and State Government is accepted that the substitute is desirable. It is not a big problem, but the system will take some time for amendment of the constitution. After the amendment in Constitution, a separate entry 92C was incorporated in the Union List to empower it to levy the Tax on services. Numbers of modified measures have been undertaken by both the Governments before implementing the GST and these should be initiated as soon as possible.

Administration issue

GST is subsumed of various types Indirect Taxes where revenue will be divided between the Central and State Government. But there may occur various problems in this case regarding the matter of authority- who will control the system? Who will decide the Tax rate and how will the administration work? On the basis of the discussion of the first paper we can suppose that there will be separate Tax management both for the Centre and each State level. The administration of the State GST will be under the control of State while Central GST will be under the Central Government.

Tax Awareness among the stakeholders

When GST implemented in Canada in 1990, Canadian Government "Department of Finance" spent $11.6 million on print, radio and television media for awareness of people on the matter of GST that how it will work. A video was exposed by satellite in cable television stations across the country. Around $5 million was spent on operating costs for GST by the Communication Groups within the department. They provided the service of toll-free hotline which attended 6,000 calls per day. In 1990-1991, Excise and Customs Department have also spent $ 10.6 million on GST, and another $9.2 million for printing and mailing materials for the explanation of how the new Tax will work. Total expenditure on GST was $ 85 million. In 1989, Proctor & Gamble was the largest private-sector advertiser, which spent $ 56.7 million on the advertisement of GST. people lives in rural areas. The (Central and State Government) have to spend a large amount of money for the awareness of people on the matter of GST.

Political issue
Presently VAT is levied by 29 States and 7 Union Territories of India. Every State has authority to decide the Tax rate and to control the Tax system as per their convenient. If it is handed over to the Central Government, they will control the Tax rate along with the Tax system. It is a matter of great concern, but the question arises why all the States hand over their right to the Union Government.

Inflation
Australia has implemented GST on 1st July 2000. Critics have argued that it is a regressive Tax; means a person with higher income will pay lower Tax compared to those are earning the lower income. Due to the reduction in federal Sales Tax and some fuel Taxes, State banking Tax that was implemented when the GST was introduced. Australia is a conservative nation as India. Before implementation of GST, the consumer has purchased goods in bulk and stored. When GST Tax came into effect, consumer consumption and economic growth declined in the first fiscal quarter of 2001. First time in last decade, Australian economy recorded negative economic growth. The Government was also criticized by small-scale industry due to the excess of administrative responsibilities. This study has focused on the problems associated with GST which may arise here also. The Government will have to control consumer consumption and economic growth of the country so that the country will not face the same problem like Australia.

Prospects of GST
India and GST
India has federal structure. Union Government has planned for a dual GST model where Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the Taxable value of goods plus services.

Benefit to industry
The GST is expected to be complimentary to the user of the supply chain of goods and services which include from beginning to ending the whole industry, Agriculture and trade via a comprehensive Tax regime. This is expected to generate the higher amount of revenue for the industry as well as business prospects as Tax burden goes down.

Benefit to exports
The cost of manufactured goods and services will decrease with the comprehensive reduction of input cost of major Central and State Taxes in GST. This will create a competitive environment of goods and services of India, in the international market.

Benefit to Consumer
The management of GST should be transparent and rationalized so that consumers will get benefits from lowering the Tax burden on goods and services consumed by them.

Reduction in Cost
As per the Government report of India "Task Force on Goods and Services Tax: Thirteenth Finance Commission" 2009, shows that the implementation of the GST will result in a sharp decline in the prices of cotton textiles (by 6.44 percent), wool, silk & synthetic fibre textiles (by 11.4 percent), and textile products including wearing apparel (by 17.45 percent). To the extent, the contribution of expenditure on clothing in the total overheads on consumption is relatively higher than in the case of the rich, the poor will be benefited more from deduction in prices. To some extent it will also help to solve the burning question poverty. Implementation of GST will increase the actual returns of land, labour and capital.

5. Conclusion
In the light of the above discussion, the authors have recommended that GST system is more beneficial for the Government as well as stakeholders from the management and analysis point of view. We believe that CGST must have the authority to collecting Tax and SGST should be given the power to take the decision regarding Tax rate. In case, if there is any change in the Tax rate it should be decided through democratic consent so that there are minimum chances of political interference. GST is also helpful in avoiding Tax evasion, improved Tax collection and compliances. It reduces the cost of goods and services to some extent and creates a supportive environment for the facilitation of international trade, thereby helping in revenue generation leading to the increase in the GDP of the country. Similarly, it will also be helpful in lowering the Tax burden on the various segments of the economy. Industries, dealers, retailers and the agriculture sector as a whole will benefit from GST.
It is found that in countries where GST has been implemented had positive impact on their economies. It can be looked as simplification of Taxes in country and avoiding unnecessary complexities. Researcher's observation is in support of GST system, experience of other countries strengthen the belief that it will be a milestone in the development of Taxation in India. As for challenges are concern it is between State and Central Government proportion in Taxes majorly, but directly or indirectly it is adding wealth to nation only. It has great prospects in favor of the nation. Researcher advocates that it should be implemented as soon as possible, delayed in implementation has negative impact on economy only.

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