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## **GST implementation in India: A conceptual framework**

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### **Abstract**

GST is a consumption based tax levied on sale, manufacture and consumption on goods & services at a national level. This tax will be substitute for all indirect tax levied by state and central government. Exports and direct tax like income tax, corporate tax and capital gain tax will not be affected by GST. India is adopting a dual GST, wherein the Central GST will be called CGST and state SGST. The main road block is the coordination among states. Centre and states have to come to a consensus on uniform GST rates, inter-state transaction of goods and services, administrative efficiency and infrastructural preparedness to implement the new tax reform. The present study is a study of the various aspects in connection with the implementation of GST.

**Key words:** Goods, Dealer, Reforms

### **1. Introduction**

In 2000 the Vajpayee Government started discussion on GST by setting up an empower committee headed by Asim Dasgupta, (finance minister, government of west Bengal.) The committee was given the task of designing the GST model & overseeing the IT backend preparedness for its rollout.

Later in 2006, Union Finance Minister Shri P. Chidambaram moved toward GST in his Budget, and purpose to introduce it by 1<sup>st</sup> April, 2010. However, the Empower Committee of State Finance Minister (EC) realised it First Discussion Paper (FDP) on the GST in November, 2009. This spells out the feature of the proposed GST & has formed the basis for discussion between the Centre & the States so far.

### **2. GST (Goods and Service Tax)**

Introduction of goods and service tax (GST) in India is a certainty and its impact on the retail sector is equally crucial to examine. It is believed that traders, including retailer, would be one of the biggest beneficiaries of this harmonized system of taxation. Although retail sector has succeeded in evolving as an organized revenue generating sector, it still continues to be fraught with some inherent challenges posed by the current indirect tax regime.

### **3. VAT (Value Added Tax)**

VAT is a multi-point sales tax with set-off for tax paid on purchases. It is collected in instalments at each transactions stage in the production distribution system it does not have cascading effect due to the system of distribution or credit mechanism. VAT is a tax on consumption. The final and total burden of the tax is fully and exclusively borne by the domestic consumer of goods and services.

Value added tax is, therefore a multi-stage sales tax levied as a proportion of value added. In people terms, VAT is tax on sale of commodity at every point in the series of sales by business firms which the provision of set-off tax already paid on inputs as well as on previous purchases. Unlike a retailer sales tax or the present sales tax or the present tax scheme, which are essentially single taxes, VAT is charged and collected at each stage of the production/delivery of goods and services.

VAT is an acronym for value added tax. It is basically known as a tax on consumption because its ultimate effect is borne by the consumer it is also known as goods and service tax (GST). In European Union it is known as VAT while in Australia, Canada, New Zealand, and Singapore it is known as GST. In Japan it is known as consumption tax.

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However, most of the states in India, from April 01, 2005, have supplemented the sales tax with the new value added tax (VAT). In India is classified under the following tax slabs.

- 0% for the essential commodities.
- 1% on gold as well as expensive stones.
- 4% on capital merchandise, industrial inputs, and commodities of mass consumption.
- 12.5% on all other item.
- Variable rates (depending on states) are applicable for tobacco, liquor, petroleum product etc.

#### 4. Meaning of GST

Goods & services tax is a board based & a single comprehensive tax levied on goods & services consumed in an economy. GST is levied at every stage of the of the production-distribution chain with applicable set offs in respect of the tax remitted at previous stages. It is basically a tax on financial consumption.

#### 5. Definition of GST

GST is tax on goods & services with value addition at each stage having comprehensive & continuous chain of set of benefit from the producer's/service provider's point up to the retailers level where only the financial consumer.

#### 6. The Challenges of Implementing GST

The introduction of good & services tax (GST) is one of the biggest tax reforms for India GST is not just a tax change but it will benefit the economy as a whole & have far-reaching impact on businesses.

#### 7. The Current Challenges

GST is meant to simplify the Indian indirect tax regime by replacing a host of taxes by a single unified tax. There by subsuming central excise, service tax VAT entry tax etc. However there is a plethora of challenges implementation some of these are highlighted below.

The GST constitutional amendment bill was passed by Lokasabha in May, 2015. However, the government faced tremendous political setbacks & failed to get it passed in the Rajyasabha during the monsoon & the winter session last year.

Once this is achieved another herculean task would be to get the GST bill passed by the respective state government in state assemblies. The government would also be required to put the GST bill in the public domain & give sufficient time to all stakeholders to comprehend & give their views on the bill, tax rate of 17 percent to 19 percent.

Further the threshold limit of turnover for idea under GST is another bond of contention between the government and empowered committee, aiming to burden the tax base under GST another factor that will impact the success of GST is the robust backbone connection all state government trade and industry banks and other stakeholders on a real time basis the government has already incorporated an SPV VIZ goods and service tax network (GSTN), which has to develop a GST portal front end system for trade and industry and back end system for all industry and back end system for registration return filing tax payment IGST settlement, MIS and other dash boards on GST portal to all the stakeholders.

GST is quite different from the existing indirect taxation system in the country, for effective implementation of GST,

tax administration staff both at central and state levels would require to be trained properly in terms Of concept legislation and produce. The tax administration staff would also need to change this mind set.

#### 8. Budget Offerings

In the previous budget the payer to learn, unlearn and relearn, the GST not only in letter but in spirit too. As per the constitutional Amendment bill placed in the Lokasabha. It was proposed that states would be allowed to levy an additional percent non-valuable tax on inter-state supply of goods for the initial two years. In order to compensate the states for loss of revenue while moving to GST this was supported by a few states while a few others criticised the same, while few others criticised the same. However recently the Empower Committee recommended abolition of the additional tax.

#### 9. The Impact of GST

GST will be a welcome change for the economy since is expected to simplify the indirect tax structure India. However, it is expected to have far reaching impact on businesses while the constitution. Amendment bill has not yet been passed, at this stage. The businesses should prepare for GST by undertaking GST impact assessment study & have a high-level plan for the GST transition.

#### 10. Background of Goods and Services Tax (GST) In India

The Vijay kelkar task force on implementation of the financial responsibility and budget management (FRBM) Act, 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of VAT principle since 1986, the existing system of taxation of goods and services still suffers from many problems. The tax base is fragmented between the centre and states. Which make up half of the GDP, are not taxed appropriately. In many situations, the existing tax structures has cascading effects. These problems lead to tax-GDP ratio, besides causing various distortions in the economy.

In this context, the Kelkar Task force had suggested a comprehensive goods and services tax (GST) based on vat principal. Value-added tax (VAT) is a modern and progressive system of sales tax. It brings in the system of system of self-assessment giving rise to transparency and mutual trust. It is charged and collected by dealers on the price paid by the customer. The empowered committee released a White paper on VAT on 17<sup>th</sup> January 2005. This was the uniform basis the states agreed to adopt to avoid competition b/w states. VAT replaced sales tax on 4<sup>th</sup> January 2005. The empowered committee, constituted by Government of India, provided the basic framework for VAT laws in the states but the have a liberty to set their own valuations for the VAT levied in their own territory.

In 2000, the Vajpayee Government started discussion on GST by setting up an empowered committee, headed by Asim Dasgupta, (Finance Minister, Government of west Bengal). The committee was given the task of designing the GST model and overseeing the IT back-end preparedness for its rollout. The effort to introduce the new tax regime was reflected, for the first time, in 2006 -2007 Union budget speech. The then finance minister Shri. P. Chidambaram remarked that there is a large consensus that the country must move towards a national level GST that must be shared

between the centre and the states. He proposed 1<sup>st</sup> April, 2010. As the date for introducing GST.

The present rates for services tax and CENVAT, that is most proximate to the global GST rate, and the continuous steps towards phasing out of central sales tax (CST), clearly hints at the endeavour on the part of government of with the central Government to prepare a roadmap for introducing a national level GST with effect from 1<sup>st</sup> April 2010. In May 2007 empowered committee (EC) of state finance ministers in consultation with central government, constituted a joint working group (JWG), to recommend the GST model. The mandate of the working group was as follows:

- GST should be so designed that it should be revenue neutral to the centre and the states.
- Interest of the special category, North-Eastern states and union territories are to be especially kept in mind.
- The Group will examine different models and ensure that the power of levy, collection and appropriation of revenue must be vested with the centre and the states by examining the pros and cons.

### 11. Features of Goods and Services

The present essay looks at the salient feature of the proposed GST & how it is different from the current system of taxation of GST. The information herein is drawn from the official paper on GST on the website of the central board of excise & customs which has played a vital role in the formulation of the GST model the paper can be accessed at the journey of GST.

- ❖ Conferring so simultaneous power upon parliament & the state legislatures to make laws governing the GST
- ❖ Levy of the integrated GST (IGST) on inter-state transactions of goods & services only by the central government
- ❖ The GST to be levied on all goods & services except alcoholic liquor for human consumption petroleum & its products.
- ❖ Shall be subject to the levy of the GST on a later date notified on the recommendation of the GST council.
- ❖ Compensation to the states for loss or revenue arising on account of implementation of GST for five year.
- ❖ The act empowers the centre to impose inter -state supply of to 1% on the year or more this tax will accrue to states from where the supply originates.
- ❖ Creation of the GST council to examine issue relating to goods & services tax & make recommendations to the union & the states on parameters like rates cesses & surcharges to be subsumed, exemption list & threshold limits, model GST laws, etc.
- ❖ The council shall function under the chairmanship of the union finance minister & will have all the state governments as members, any decision of the GST council would require three- fourths approval of the council. The states would have two-third of the voting powers and the centre one- third.

### 12. Significance of GST

The goods & services tax GST is a value added tax GST is expected to be critical reform in spurring growth in the economy when introduced GST will not only make the tax system simpler, but will also help in increased compliance boost tax revenues reduce the tax out flow in the hands of the consumers & make export competitive it is hoped that the new government will set forth a road map of the GST

implementation in the upcoming, the basic idea of this bill is to create a single cooperative & undivided India market to make the economy stronger & powerful.

- GST is transparent tax & also reduce no of indirect taxes, with GST implemented a business premises can show the tax applied in the sales invoice.
- GST will not be a cost to registered retailers therefore there will be no hidden taxes & the cost to registered retailers therefore there will be no hidden taxes & the cost of doing business will be lower
- Benefit people a spruces will come down which in turn will help companies as consumption will increase
- There is no doubt the product & distribution of goods services are increasingly used or consumed & vice versa separate taxes for goods services.
- It would make possible the taxation burden to be split equal ably b/w manufacturing & service.
- GST will be levied only at the final destination of consumption based on VAT this will help in removing economic destination & bring about development of a common national market
- It will also help to build a transparent & corruption free tax administration
- The presently a tax is levied on when a finished product moves out from a factory which is paid by the manufacturer.

### 13. Advantages of GST Goods & Services Tax

As the Rajya Sabha prepares to pass the constitutional amendment paving the way for the goods & services tax GST the reforms is expected to bump up GDP by about a percentage point or even more here's a look at GST benefit the present structure of indirect taxes is very complex in India government on goods & services.

- ✓ The tax structure will be made lean & simple
- ✓ The entire India market will be uniform market which way translate into lower business cost
- ✓ It is good for export oriented businesses
- ✓ In the long run the lower prices on goods for consumer
- ✓ It can bring more transparency & better compliance
- ✓ Because it is not applied for goods & services which are exported out of India
- ✓ This reduces the cost of doing business thus enabling fairer prices, for consumers
- ✓ Number of department tax (Department) will reduce which in turn may lead to less corruption
- ✓ For many capital goods input tax credit is not available full input tax credit under GST will mean a 12-14% drop in the cost of capital goods expected a 6% rise in capital goods investment 2% overall.

### 14. Drawbacks of GST

- The prices of some goods may fall after successful implementation of GST. But this is possible only if the benefit is actually passed on to the customers there are other factors also like the sellers profit margin that determine the final price of goods but the GST alone does not determine the final price of goods.
- Services will become expensive for ex., telecom banking, airlines and the like.

### 15. Scope of GST Goods and Services Taxes

All goods & services are covered under GST regime expect Alcoholic liquor for human consumption Tobacco products

subject to levy of GST & centre may also levy excise duty GST council yet to decide the incidence & levy of GST on following.

- o Crude petroleum
- o High speed diesel (HSD)
- o Motor spirit (petrol)
- o Nature Gas
- o Aviation turbine fuel

#### **16. Action Plan of GST Council**

Least number of taxes, cesses, & surcharges to be subsumed under GST preparation of list of goods & services subject to or exempt from GST determination of threshold limit of turnover for application of GST fixation of rates proportion of model GST laws, principle of levy apportionment of taxes benefits firming up place or supply rules recommend on compensation to state losing on revenue post implementation of GST subject to maximum period of five years.

#### **17. Regulatory Framework of GST**

A new set up by government of India named as “GST council”. The GST council consists of

- a) The union finance minister (as chairman)
- b) The union minister of state in charge of Revenue or finance
- c) The minister in charge of finance or taxation or any other minister nominated by each state government.

All decision of the GST council will be made by three-fourth majority of the votes cast the centre shall have one-third of the votes cast & the states together shall have two-third of the votes cascading effect.

#### **18. Conclusion**

The GST implementation was a very long pending amendment to even out the problems existing in the Value Added Tax system. The focus of the Government was to bring in uniformity in the sales tax system in India. With GST the lean and simple form of taxation should be brought in so as to ease the complexities.

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