ISSN 2229-5518

Goods and Services Tax (GST) Bill' 2016: Gearing up for the next big wave in the Indian Economy

Piyush Charan[a,§], Rohan Benjamin[†] and Zohaib Hasan Khan[b]

[a] Management Scholar, Pondicherry University, Puducherry, India

[b, §]Assistant Professor, Department of Electronics and Communication Engineering, Integral University, Lucknow, India

[†]Research Scholar, Department of Management, Shri Ramswaroop Memorial University, Lucknow, India

E-mail: [a,§] piyush@iul.ac.in, [†] rohanbenjamin@yahoo.in, [b] zhkhan@iul.ac.in

Abstract: India is a Tax driven economy. This tax is levied on business owners, entrepreneurs and salaried people. The revenue thus generated by imposing taxes on the general public is used to run and develop the nation. Many economists have quoted that GST is an Indirect Tax that brings together most of the taxes that are imposed on all goods and services (except a few) under a single banner. In this paper a review on the Goods and Services Tax (GST) bill is proposed that will enable the reader to understand the concept behind passing such a bill in the Legislative Assembly, its characteristic features, the challenges involved and the pros and cons of this bill are discussed.

Keywords: GST, Indian Economy, GDP, Indian Taxation

I. Introduction

The Goods and Services Tax (GST) Bill or GST Bill, officially known as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, proposes a national Value added Tax to be implemented in India from 1 April 2017. GST is a part of the proposed tax reforms that centre round evolving an efficient and harmonized consumption tax system in the country. The goods and service tax (GST) is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at a national level. The former Comptroller and Attorney General (CAG) of India, Mr. Vinod Rai in his inaugural address to the National Conference on GST put forth the concept as "An integrated scheme of taxation that does not discriminate between goods and services and is a part of the proposed tax reforms that centre on evolving an efficient and harmonized consumption tax system in the country."

Introduction of an integrated Goods and Services Tax (GST) to replace the existing multiple tax structures of Centre and State taxes is not only desirable but imperative in the emerging economic environment. The implementation of GST would ensure that India provides a tax regime that is almost similar to the rest of the world. It will also improve the international cost competitiveness of native goods and services. The GST at the Central and at the State level will in this way give more alleviation to industry, trade, and agribusiness also, customers through a more thorough and more extensive scope of coverage of input tax set-off and service tax setoff. The Finance Minister of India, Mr. Arun Jaitley assured that India could become a global market as implementation of GST will give 2% boost to Asia's third largest economy. As per a report by the National Council of Applied Economic Research, GST is relied upon to increment financial development by 0.9% to 1.7%. The inference to the above report also showed that the exports are expected to rise from 3.2% to 6.3%, while imports will probably rise from 2.4% to 4.7%. Every citizen would be designated a PAN connected citizen recognizable proof number of 13 to 15 digits. This would align the GST PAN-linked framework in line with the common PAN based framework for Income Tax, encouraging information trade and taxpayer compliance. Federation of Indian Chambers of

Commerce & Industry (FICCI) has recommended that the GST ought to be reached out to all segments of the economy without exception and proposed to cover petroleum and normal gas, land, liquor and power generation under GST in order to widen the tax base. FICCI has proposed to have same edge limit on products and services so as to evacuate confusions and deceptive practices and threshold limit ought to be kept high as it will ease tax administration since tax will be collected from those taxpayers who will have significant turnover and small traders do not encounter any issue in regards to record keeping and compliance as required under the framework of GST. FICCI has likewise prescribed a speedy arrival of the draft GST Tax code by both the Centre and the States to permit industry to acclimatize and propose changes/adjustments. The GST is business friendly and is presented in a way that it turns into a "win-win" for everybody.

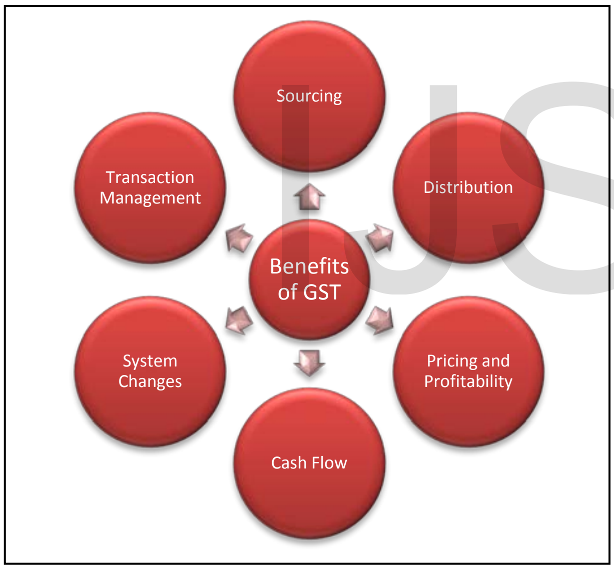

Figure 1. Summary of the Benefits of GST

II. Problems Encountered in the Current Taxation System

The key problems in the current taxation system in India can be categorized into:

- Taxation at Manufacturing Level i.e. Central Value Added Tax (CENVAT) is levied on goods manufactured or produced in India which gives rise to definitional issues as to what constitutes manufacturing, and valuation issues for determining the value on which the tax is to be levied which through judicial proceedings has been observed to be a severe impediment to an efficient and neutral application of tax.
- Exclusion of Services from state taxation has posed difficulties in taxation of goods supplied as part of a composite works contract involving supply of both goods and services, and under leasing contracts, which entail a transfer of the right to use goods without any transfer of their ownership. Though these problems have been addressed by amending the Constitution to bring such transactions within the purview of the State taxation, services per se remain outside the scope of state taxation powers.
- Tax Cascading - Oil and gas production and mining, agriculture, wholesale and retail trade, real estate construction, and range of services remain outside the ambit of the CENVAT and the service tax levied by the Centre. The exempt sectors are not allowed to claim any credit for the CENVAT or the service tax paid on their inputs. Similarly, under the State VAT, no credits are allowed for the inputs of the exempt sectors, which include the entire service sector, real property sector, agriculture, oil and gas production and mining. Another major contributing factor to tax cascading is the Central Sales Tax (CST) on inter-state sales, collected by the origin state and for which no credit is allowed by any level of government.
- Complexity -In spite of the improvements made in the tax design and administration over the past few years, the systems at both central and state levels remain complex. Their administration leaves a lot to be desired. They are subject to disputes and court challenges, and the process for resolution of disputes is slow and expensive. At the same time, the systems suffer from substantial compliance gaps, except in the highly organized sectors of the economy. According to Mr. Sunil Birla, Partner, Haribhakti & Co., Chartered Accountants, the implementation of GST would be a positive step towards "a strong single taxation system wherein various Central and State statutes will be subsumed into one comprehensive enactment"

III. Features of GST Bill

According to the First Discussion Paper on Goods and Services Tax in India by the Empowered Committee of State Finance Ministers dated Nov. 10th, 2009 , the five key features of the proposed plan of the Goods and Services Tax for the Indian economy, approved by the Government of India and Empowered Committee of State Finance Ministers comprises :

i. Two components: one levied by the Centre (hereinafter referred to as Central GST), and the other levied by the States (hereinafter referred to as State GST), rates for which would be prescribed appropriately, reflecting revenue considerations and acceptability.

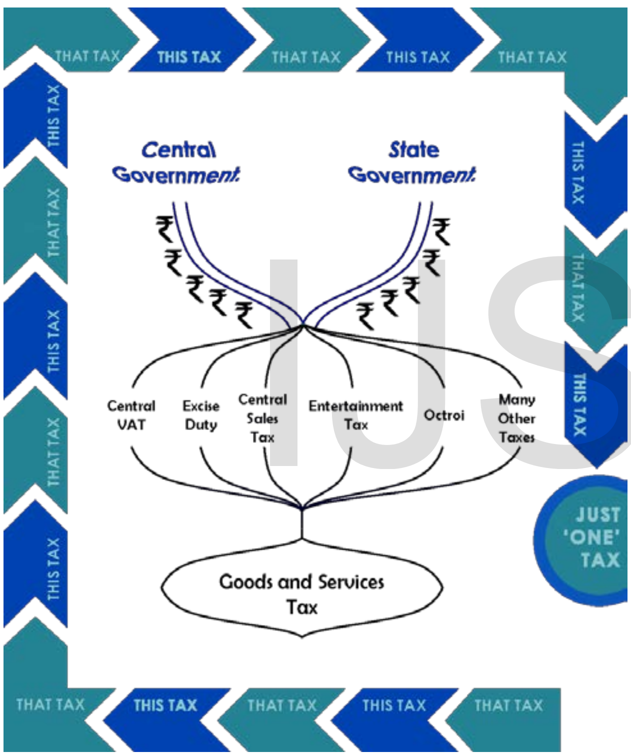

Figure 2. 'Just One Tax' scheme in GST

ii. The Central GST and the State GST would be applicable to all transactions of goods and services made for a consideration except the exempted goods and services, goods which are outside the purview of GST

iii. The Empowered Committee has decided to adopt a two-rate structure -a lower rate for necessary items and goods of basic importance and a standard rate for goods in general. There will also be a special rate for precious metals and a list of exempted items

iv. The GST will be levied on import of goods and services into the country.

v. The administration of the Central GST to the Centre and for State GST to the States would be given. This would imply a reduction in unhealthy competition among the centre and the states over tax revenue that was prevalent earlier and an increase in harmonious functioning between them.

IV. BENEFITS OF GST

The implication of GST assures a single taxation system in the entire country for all goods and services making tax compliance easier and more effective. The major benefits of this proposal according to Report of Task Force on Implementation of GST on the website www.goodsandservicetax.com are:-

- To The Economy - It will simplify India's tax structure, broaden the tax base, and create a common market across states. This will lead to increased compliance and increase India's tax-to-gross domestic product ratio.

- To The Corporate - It will be beneficial for India Inc. as the average tax burden on companies will fall. Reducing production costs will make exporters more competitive

- To The Exporters - The subsuming of major Central and State taxes in GST, complete and comprehensive setoff of input goods and services and phasing out of Central Sales Tax (CST) would reduce the cost of locally manufactured goods and services. This will increase the competitiveness of Indian goods and services in the international market and give boost to Indian exports.

- To Industry - Manufacturing sector in India is one of the highly taxed sectors in the world. A complex and high taxation structure has the tendency to render products uncompetitive in the international market or consume large portions of the cost arbitrage available in manufacturing set-ups in low cost economies such as India. GST when enforced would eliminate complexities in the present taxation structure and consequently prevent the loss of nearly 50% of the advantage of lower manufacturing costs that India has over the western nations. "A well-designed GST is the most graceful method to get rid of distortions of the existing process of multiple taxation" Sanjay Pant, Commissioner Service Tax, Bangalore.

- To The Centre And State - Approximately $ 15 billion a year of profits are predicted by the government with the implementation of GST as it is speculated to bring about raise in employment, promotion of exports and consequently a significant boost in overall economic growth. "The implementation of a comprehensive GST in India is expected to lead to efficient allocation of factors of production thus leading to gains in GDP and exports. This would translate into enhanced economic welfare and returns to the factors of production, viz. land, labour and capital" Mr. Premnath Hegde H.N., Chartered Accountants, Premnath Hegde and Co.
  Another positive aspect of this proposal is that it is aimed at equitable division of tax burden between the manufacturing and services. "GST will be the biggest reform after 1991 and its implementation alone would add 1.5-2 percentage point to India's GDP growth. It will provide a tremendous stimulus and can solve several issues like inflation and fiscal deficit" - Mr. Adi Godrej Chairman of the Godrej Group.

- To The Individuals And Companies - With the collection of both the central and state taxes proposed to be made at the point of sale , both components will be charged on the manufacturing costs and the individual will benefit from lowered prices in the process which will subsequently lead to increase in consumption thereby profiting companies.

V. CHALLENGES AND ISSUES IN THE PROPOSED GST

The major shortcomings of GST according to Report of Task Force on Implementation of GST on the website www.goodsandservicetax.com can be summarized as:

- Not using the correct accounting method may result in discrepancies in tax computation and compliance
- Incorrectly claiming GST credits on bank fees
- Incorrectly claiming GST credits on government charges --such as land tax, council rates and water rates.
- Incorrectly claiming a GST credit on the 'total cost' of a business insurance policy.
- Not remitting GST on some government grants and incentives which are received inclusive of GST
- GST is not paid on the sale of cars and equipment including the trade of motor vehicles.
- Incorrectly claiming GST credits on wages and superannuation payments.
- Incorrectly claiming GST credits on GST-free purchases such as basic food items, exports and some health services.
- Claiming the entire GST credits on a car purchased for more than the luxury car limit.
- Incorrectly claiming an upfront GST credit on assets financed through a commercial hire purchase (CHP).
- Incorrectly claiming GST credits on payments for Yellow Pages advertising where the business chooses to pay for the cost of advertising by installments.
- Claiming a GST credit when the business does not have a valid tax invoice at the time of lodging the Business Accounting Standards.

VI. A COMPARATIVE STUDY OF GST IN OTHER COUNTRIES

(source: Internationally- Goods and Service Tax by C.A. Rajat Mohan B.Com (H), A.C.A., D.I.S.A.)

Table1: The Global Scenario on GST

Countries	GST(%)	Goods and Services on which GST levied
France	19.6%	All services except medical supplies, postal services, education, certain financial transactions and insurance services
Russia	18%	All services except lease of premises to foreign companies accredited in Russia, medical services and certain medical products, educational services, public transportation, sale of securities, banking and insurance services, rent of apartments, sale of apartments and residential property
United Kingdom	15%-17.5%	Supplies of goods and services except financial and insurance services, education services supplied by eligible bodies, certain cultural services, betting, gaming, lotteries, subscriptions, health and welfare
New Zealand	15%	All goods and services except rents collected on residential rental properties, donations, precious metals and financial services
Bangladesh	15%	All goods and services except: · Certain food items (such as meat, fish, potatoes, vegetable and fruits); · Jute and jute goods; · Social welfare & cultural training; · Rehabilitation services; and · Agricultural development.
Mauritius	15%	Supplies of goods and services with the exception of: · Rice and wheat, · bread and butter, · milk and cream, · medical, hospital and dental services, · educational and training services provided by registered institutions · postal services, · cargo handling, · certain residential buildings
Australia	10%	Most transactions except services such as financial services, residential rent, residential services etc.
Singapore	7%	All goods and services except sales and lease of residential properties and most financial services

International Journal of Scientific & Engineering Research, Volume 8, Issue 1, January-2017
1459
ISSN 2229-5518

Japan	5%	All supplies of goods and services except social welfare services, letting off commercial buildings, postal services, non-commercial activities of no-profit making organizations etc.
Canada	5%	Supplies of goods and services purchased within the country except certain politically sensitive essentials such as groceries, residential rent, medical services and financial services

GST is touted to be one of the triggers that could help boost the country's economic fortune. Economists are of the view that it will unite the country economically as it will remove various forms of taxes that are currently levied at different points. GST will help in widening the coverage of tax base, improve tax compliance, remove existing unhealthy competition among states and re-distribute the burden of taxation equitably among manufacturing and services. Overall, it will result in increasing revenue at the Centre.

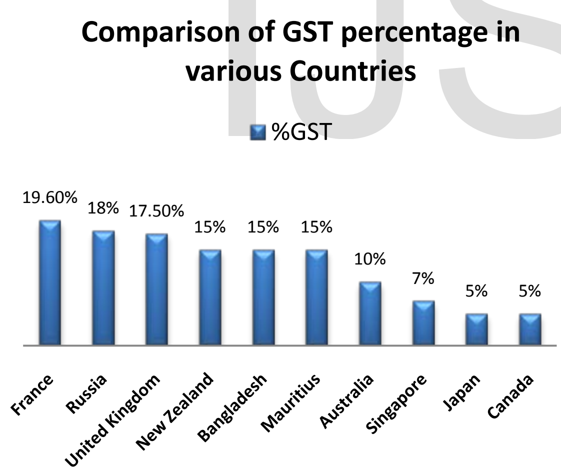

Figure 3. GST percentages in different parts of the World

VII. Current status of GST in India

In his budget speech of 2007-08, finance minister P. Chidambaram had announced the implementation of the Goods and Services Tax (GST) from April 1st 2010: "It is my sense that there is a large consensus that the country should move towards a national level GST that should be shared between the centre and the states".

Thereafter, the Empowered Committee of State Finance Ministers in agreement with the central government constituted a Joint Working Group (JWG) in May 2007 to prepare a GST module. Within seven months of its constitution, in Nov. 2007, JWG presented its report to the committee which was duly accepted. However it failed to be implemented at the decided date. The second deadline for this concept was set at April 2012. Later, Finance Minister in his budget speech of 2013-14 while apologizing for the failure to meet the April 2012 deadline announced further postponement of the same to April 2014. Thereafter, the Constitution (122nd Amendment) Bill, 2014 was introduced in the Lok Sabha by Finance Minister Arun Jaitley on 19 December 2014, and passed by the House on 6 May 2015. In the Rajya Sabha, the bill was referred to a Select Committee on 14 May 2015. The Select Committee of the Rajya Sabha submitted its report on the bill on 22 July 2015. The bill was passed by the Rajya Sabha on 3 August 2016, and the amended bill was passed by the Lok Sabha on 8 August 2016.

VIII. Effect of GST on Gross Domestic Product (GDP)

ISSN 2229-5518

The ratio of indirect taxes to GDP in India increased from 3.99% in 1950-51 to 12.7% in 2008-09. However, it has fallen to 4.4% in 2011-12. Export of goods and services as a percentage of GDP for India increased from 22% in 2010 to 25.2% in 2013. Implementation of GST which is zero-rated will result in increase of exports thereby further adding to exports. The revenue neutral GST rate of 10% against the proposed GST rate of 25-27% will further add to the tax receipts. Exports which grew at 13% CAGR during 2010 and 2013 is expected to increase at around 6-8% due to implementation of GST thereby further adding to GDP. Lastly, the GST will result in efficient allocation of factors of production (land and capital) thus resulting in overall price going down. Thus the real return to factors of production will go up. Finally, GST is expected, *ceteris paribus*, to increase India's GDP by 1 to 1.8%. The additional gain would be earned during years in future over and above the GDP growth achieved otherwise.

IX. Conclusion

Indeed, GST has the potential to be the single most important initiative in the fiscal history of India. It can pave the way for standardization of tax administration - make it simpler and more transparent - and significant enhancement in voluntary compliance for the development of the nation. As an economist, I believe that the implementation of the GST proposal of the Union Government pertinent to all states across the country will prove to be an effective medium of simplification in paperwork and accounting processes for businesses, equitable revenue sharing between centre and states and consequent significant improvement in commerce and eventually economic development of the nation can be achieved.

References

[1]. Nitin Kumar, "GOODS AND SERVICES TAX IN INDIA: A WAY FORWARD", Global Journal of Multidisciplinary Studies, Volume 3, Issue 6, May 2014, Available online at www.gjms.co.in

[2]. Gupta Nishita, "GOODS AND SERVICE TAX: IT'S IMPACT ON INDIAN ECONOMY", International Research Journal of Commerce, Arts & Science, Volume 5, Issue 3, 2014.

[3].Goods and Service Tax, Wikipedia Link: https://en.wikipedia.org/wiki/Goods_and_Services_Tax_Bill

[4]. PRS / Bill Track / The Constitution (122nd Amendment) (GST) Bill, 2014".*www.prsindia.org*. Retrieved 13 August 2016.

[5]. Model GST Law, Empowered Committee of State Finance Ministers June, 2016. Available at: http://www.finmin.nic.in/reports/ModelGSTLaw_draft.pdf

[6]. Bhawna Manyal, Aanchal Nagpal, "GST on E-commerce in retail sector: BOON or BANE", XVII Annual International Seminar Proceedings; January, 2016. Online available at: http://www.internationalseminar.org/XVII_AIS/INDEX.HTM

Authors Profile

Piyush Charan is a Management Scholar at Pondicherry University, Puducherry. He is a Member of IEEE, USA, Member of ACM, USA and Life Member of ISTE, India. His research is focused on Indian Economics and Finance.

Rohan Benjamin is a Management Research Scholar at Shri Ram Swaroop Memorial University, Lucknow. His research interest is Finance and Indian Economics.

Zohaib Hasan Khan is a received his B.Tech. & M.Tech Degree in Electronics & Communication Engineering.He received the degree of LL.B from Lucknow University. He is a Member of IEEE, USA. His research is focused on Cyber Crime and Cyber Law and he is also a Marketing Professional and has interest in Indian Economics.