GOODS AND SERVICES TAX: PROPOSED MOMENTOUS TAX REFORM IN INDIA

Abstract: At present indirect tax Structure of multiple levies across all sectors of production is noted to be resulting in distortions in the distribution of resources as well as production incompetence. The Goods and Services Tax (GST) is a value added tax and its decision regarding implementation in the country is still awaited. The goods and services tax (GST) is aimed at constituting a single, synchronized tax regime that will benefit both individual entities and corporate in the economy and thereby establish a commonality between the basic model and layout of the Central Goods and Services Tax, State Goods and Services Tax and integrated Goods Services Tax between inter-states. This paper assesses the current initiatives taken by government to implement goods and services tax in India and also depicts the expectations of Indian economy and its taxpayers from GST. Goods and Services Tax is expected to assimilate taxes on goods and services over all supply chain for getting financial benefits as a value addition at every stage. This study is a result of an exploratory research that is carried out to understand the conceptual framework of Goods and Service Tax (GST) that is going to be enacted in India. Data collection has been done through various secondary sources such as official Government web sites, newspaper articles etc. This paper also provides recommendations that can be prove helpful in the execution of tax in the country. The vast objectives behind introducing an inclusive GST in India is to unify and strengthen multiple indirect taxes in India and developing a common domestic market by broadening the tax structure and removing exemptions and also lessen cascading and dual taxation and encourage free willed compliances by reducing overall tax load on business houses and end consumers.

KEYWORDS: Committee, economy, Government, legislation, structure, taxes, VAT.

Introduction

The escalation of Value Added Tax (VAT) or Goods and Services Tax (GST) structure of Indirect taxes worldwide is showing a rising trend including 34 member countries of Organization for Economic Co-operation and Development (OECD) apply VAT as the culled form of consumption tax. Recently, Malaysia has implement GST effective 1 April, 2015 and present Indian legislatures has announced an outline to introduce GST in India by June, 2016. Many Countries has introduced VAT and GST for different reasons that mainly depends on their existing tax structure, renewal of turnover taxes on account for handling cross border-transactions, assisting in the growth of common market and downsizing trade and economic deformity. Other reason of countries applying VAT and GST was to raise revenues from accustomed consumption to hew rate of income taxes also neutralize the impact of revenue was also the reasons. Other counties moved to VAT and GST to solidify and modernize existing tax system embody of multifarious sales tax at divergent rates.

This rising movement towards VAT and GST can be imputing to key determinants such as:

1. VAT and GST conserve neutrality by equally taxing the value added by each constituent;
2. Consumption tax is huge and more constant source of income;
3. Conceivably enforce itself by its nature.

IMF played a key role in this spread by consistently supporting and advocating this form of taxation and facilitating its adoption by countries with less developed economic and administrative structures as well (Richard M. Bird & Pierre-Pascal Gendron). OECD has also launched a project to develop International VAT/GST Guidelines to apply VAT to cross border trade, with an aim to reduce uncertainty and risks of double taxation and unintended non-taxation that result from inconsistencies and the third meeting of the OECD Global Forum on VAT is scheduled to be held in Paris in November 2015. The following graph shows the VAT revenue Ratio of different countries:

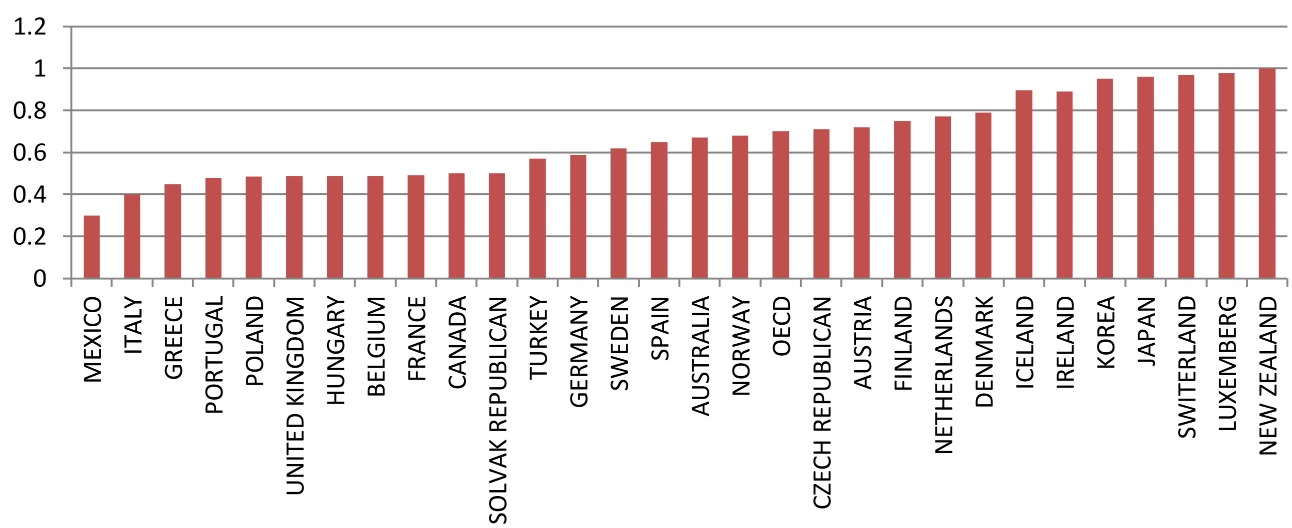


FIGURE -1

Review of the VAT/GST legislations and provisions prevailing in the above mentioned jurisdictions, a similar trend has been observed in terms of the underlying principles. VAT/GST being destination based and therefore applicable on consumption that takes place in the respective country/region and therefore exempts exports and taxes imports. Further, input tax credit can be claimed for the cost of procuring and producing in case of zero-rated supplies and cannot be claimed in case of exempted supplies.

VAT/GST reform has proved to be a robust source of tax revenue in all jurisdictions. Notwithstanding that VAT/GST has emerged successful and supreme over the other forms of indirect taxation, these jurisdictions are continuously working towards reforming structural issues such as in December 2010[14], European Commission published a Green Paper on the future of VAT and argued that there were “numerous shortcomings in the current VAT system which create obstacles to the Internal Market, cause burdens for businesses and prevent Member States from benefitting from the true potential of this tax” and also pointed out the system is susceptible to fraud. Businesses are reported to find VAT model in European Union very complicated on account of huge diversity in application of exemptions and reduced rates among member states causing distortion in competitiveness and additional compliance costs (reported to be around 11%[15]) borne by businesses that conduct cross-border trade when compared to those businesses that only trade domestically. In Canada, businesses are reported to be facing challenges under GST/HST on account of interpretation issues and multiple provinces having variety of tax rates. British Columbia, though harmonized its PST with the GST in July 2010 re-implemented PST in 2013. Like in all other jurisdictions, even in New Zealand and Australia the compliance cost under VAT/GST has been reported to be relatively more burdensome for small size business entities.

Proposed Goods and Services Tax in India

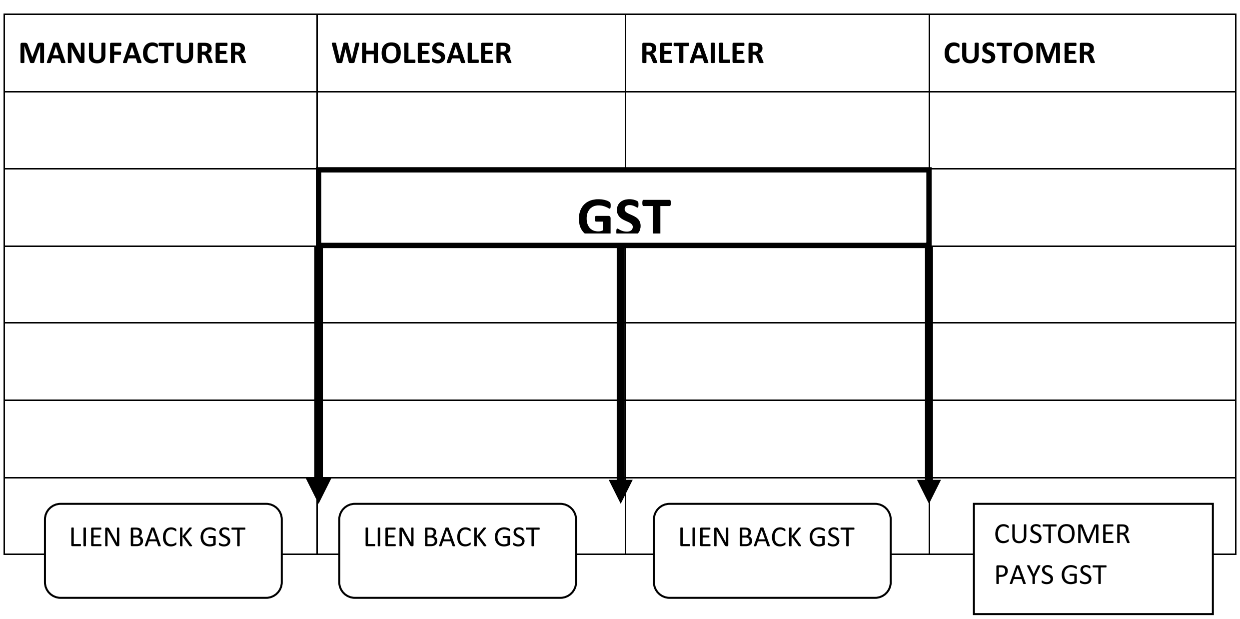
Based on the recommendations, the Government established an Empowered Committee consisting of State Finance Ministers to prepare a blue print for the implementation of GST.

ISSN 2229-5518

Salient features of the prospective GST model which is based on the reports of Empowered Committee are brief as follows:

1. Indian system alienates with the federal system and therefore GST model is proposed to be a duplex structure to be imposed and possessed by the Union government which is ascribing as Central GST (CGST) and respective State governments ascribe to as State GST (SGST)]. This duplex GST model would be enacted and administered by one CGST/IGST decree felicitous across the country, SGST decree for each State, universal rules deciding valuation, place of fund's accumulation, place of provenance etc. This would entail that the Centre and the States would have synchronous administration for all whole value chain and the basic conventions of law like chargeability, rationale of taxable event and taxable entities, quotas of levy including valuation provisions, basis of distribution, etc. shall be consistent across State decree. It has been stated that draft charter are already completed and under in house discussions. Also, various unified rules are in the course of being drafted and concluded. The following chart shows the applicability of proposed GST at different levels of supply chain:

TABLE-1



CGST and SGST would be entirely applicable to all goods and services up to the end consumer (vendor level), imitating the consumption tax of VAT. Thus, CGST and SGST would be applicable to every transaction that involves supply of goods and services (besides exempted goods and services and alcoholic liquor for human consumption), these are kept outside the cognizance of GST and the transactions which are below the prescribed threshold ceilings. Based on suggestions and directions of both Empowered Committee and Finance Commission, GST shall be levied on the following products:

- Natural Gas
- Petroleum Crude
- High Speed Diesel
- Motor Spirit (also known as Petrol)
- Aviation Turbine Fuel

2. GST to be framed on the destination doctrine so that the tax base movement from production to consumption by which imports will be accountable for tax and exports will be relaxed from the burden of GST. Therefore, revenues will accumulate to the State in which the consumption attains.

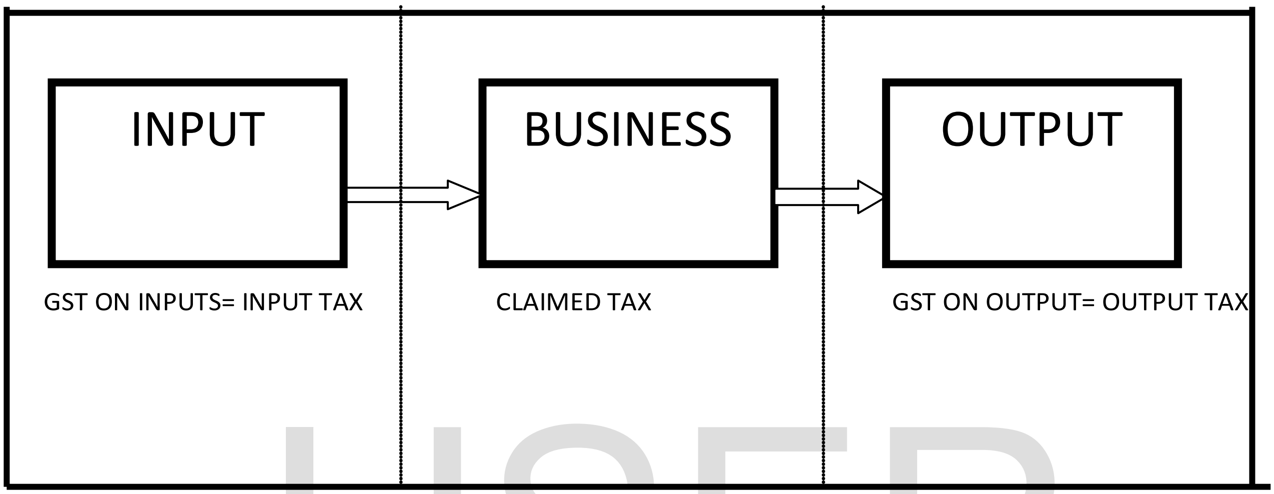
3. Taxes avow on input goods/services against CGST shall be concede to be employ as input tax credit (ITC) against output tax liabilities under CGST and same doctrine applies to SGST. Cross application of input tax credit between the Central GST and the State GST would not be acknowledge besides in case of inter-state supply of goods and services. Therefore, an exporter taxpayer need maintain separate details in books of account for utilization or refund of credit.

In order to sustain continuous flow of credit sequence, Central Sales Tax would be discontinued in case of inter-state transactions of taxable commodities. On transactions of

ISSN 2229-5518

such goods, government would impose Integrated GST with relevant arrangement for distribution or transfer of goods and services. The pertinent information will also be endured to the Central department which will act as a clearing house system, validate the claims and notify the respective governmental authorities to transfer the funds. The following charts show the Input-process-output continuation of GST:

TABLE-2



5.CGST and SGST are proposed to be imposed on consumption of all goods and services, these two taxes would incorporate all taxes that are currently imposed on various goods and services by the both States and centre government. In order to have an uninterrupted flow of tax credit , the following indirect taxes are proposed to be subsumed:

Table-3

Central Indirect Taxes	**State Indirect Taxes**
Central excise duty	Value Added Tax/Sales Tax
Service Tax	Entertainment Tax
Excise duty levied under Medicines	Octroi and entry tax
Additional excise duties	Central sales tax
Additional Duty and special additional duty of customs	Purchase Tax

Central cess and surcharges that relate to supply of goods and services	▪ Luxury Tax ▪ Taxes on lottery battery and gambling

Source: First Discussion Paper on Goods and Services Tax in India submitted by the Empowered Committee of State Finance Ministers submitted on 10 November 2009; Constitution (122nd Amendment) Bill, 2014

Legislative Framework

Fiscal powers are equitably distributed between Central government and State governments. As per the current scenario of Constitution of India, 1949, only Central government has been authorized to impose duties on manufacturing of goods and taxes and on supply of services.

Therefore, to introduce a GST in India Constitutional modifications enabling the states to impose and collect taxes would be an imperative. Therefore, to abide these concerns and give concerted taxing powers to both state and union government, the legislative Constitution introduced (115th Amendment) Bill, 2011 known as GST Bill. The introduction of GST in India based on the structure that was proposed by the Empowered Committee. The GST Bill was citing to the Parliamentary Standing Committee on 29 March, 2011 for precise review and void with the dissolution of the Lower House in 2014. When new government was enacted, revised GST Bill got approved from the Union Cabinet then Lower House accords its approval to the GST Bill on May 6, 2015 which was then referred to a Select Committee of the Upper House for further review. Upper House on July 22, 2015 after accepting most of the clauses in the GST Bill submitted Report to Union Cabinet. Union Cabinet has approved the amendments to the GST Bill as per recommendations of the Select Committee on 29 July, 2015 and the GST Bill was implanted for discussion before the Upper House on 10 August, 2015. However, the Upper House was adjourned sine die on the last day of the monsoon session that is 13 August, 2015 without any business being conducted.

The worldwide escalation of GST bolsters the victory of GST model of indirect tax over any other systems of taxation. With GST structure, a set of pivotal expectations enclose economic prosperity, growth in international trade, stability in prices and moderate taxes etc. In addition to, prospects of taxpayers are in the pattern of simplicity and consistency of the tax system, certainty and transparency, serenity of taxpayer's concurrence, administrative enhancement, brisk and simpler grievance readdressed system etc. Union Finance Minister of India, at the time of his discussion on the GST Bill presented before Lower House, marked that GST rate would be much lower than suggested rate of 27%. At present scenario, Empowered Committee is in process of deciding on GST rate in deliberation with Chief Economic Advisor taking into consideration revenue collection figures for 2013-14. It is imperative that the rate structure dismount at should be one that will be admissible, does not crooked costs and encourages conformity.

India's Economy Expectations from Goods and Services Tax

Currently, existing indirect tax reign of various taxes across different sectors of production is noted to be leading to deformity in the distribution of resources as well as production ineptness. Non redeemable taxes fabricated into the costs are making the Indian commodities more expensive than their worldwide competitors and therefore stirring vie. As a result, GST is expected to give lift to exports by mollify costs which could elevate exports in the interval of 3.2 to 6.3 per cent. .

The vast objectives at the back of indicating a inclusive Goods and Services Tax in India is to integrate and solidify various indirect taxes in India and develop a common domestic market by broadening the tax base and piercing the exceptions; assuage descending and dual taxation and build up voluntary conformity by the way of menacing the overall tax load on business and ultimate consumers. At present, in the GST draft there are peculiarity like 1 per cent extra tax, expulsion of various sectors of economy and expulsion of certain taxes that develop the draft vary from these goals. It is anticipated that these oddity would be interim and the GST would finally be an All-enveloping tax that would effectuate anticipation. It is expected that with GST, GDP will be further boost and promote stream line compliance.

Expectations of Taxpayers

As per directions of OECD, the generally accepted conventions and doctrine of tax regime pertinent to consumption taxes are applicable to national and international businesses; among them few ones are:

1) Tax Neutrality,

2) Adeptness,

3) Certainty and Simplicity,

4) Efficacy and transparency etc.

The proposed GST model in India is anticipated to be as per the best conveyances beyond all VAT/GST nations and some of the anticipations are as mentioned below:

1. **Concept of Tax Neutrality**: Tax neutrality assures that tax finally incremental on a specific supply chain is applicable to the amount of tax paid by the ultimate consumer. A credit system that prohibits breakdown in credit chain expected under GST system in India is one which, with mild rates, will be tax nonpartisan and does not point to any increase in prices of goods and services and provide the interests of producers' supplies to national and international markets without inappropriate benefits to one over another.
2. **Uniformity:** GST is familiarizing to swamp the concern and shortcomings of the present indirect tax system. Chronically, Indirect tax structure in India has been very intricate with numerous taxes at various taxable conditions. GST is anticipated to propose a simple, adept and synchronize Indirect tax structure in India with an inclusive tax on flow of all goods and services on the similar tax base and from such structure of taxation are:

   a) Taxable affairs would appear concurrently on supply of goods and services.
   b) Present intricacy relating to intellectual property, software and 'works contract' etc., are expected to be diminished by building taxation of such transactions transparent, and lessening their tax load.
   c) Various issues that are confronted at present by various sectors like telecom and real estate will be presented and settled.
   d) The intricacy of the present structure regarding valuations and classification of goods and

services on account of the varied explanation and rulings will be phase out.

3. **Clarity in GST legislations**: Benefits of an inclusive national GST can be perfectly blend with legislative doctrine and rules commensurate across States and Centre. Henceforth, GST charter are supposed to be
   a) Codify with fair and explicit interpretation on essential concepts like 'taxable affairs'; tenacity of provenance in case of inter-state business of goods; 'appropriateness and usefulness of Input Tax Credit; 'fickle Provisions', 'List of prohibited supplies of goods and services' etc.
   b) Nominal use of terms like 'in relation to', 'such as' 'including' to avert interpretational problems that may point to legal disputes.

4. **Conciliation and Grievance Redressed Mechanism**: Conciliation is a procedure in which the Conciliator acts as an ardent to deliver informal redressed process. Throughout the world, the GST structure has conciliation system whereas Indian indirect tax system is densely relying on dispensing truth through medium of Courts. In such type of system, the judgments are assigning upwards by authorities who need to be honest and unbiased. It is anticipated that the new charter will have conciliation system that would not entail a tax payer to pursue costly and deferred justice through law.

Exceptions

Exceptions are allowed from VAT/GST on flow of goods and services because they are of a specific value to the society or nation. Exemption from VAT provides a relief to a dealer from disbursement of VAT on flow of goods and services. It has been suggested that normally, there should not be any exception from CGST or SGST. Because of some reasons, it is advised to grant exemption, the Centre and the States should draw up a common exemption based on following conventions:

1. All government undertaking including:

   A. Civil administration,

B. Health and

C. Formal education services provided by government schools and colleges,

D. Defense,

E. Police, intelligence and government departments

Excluding railways post and telegraph, other commercial units, public sector undertakings, banks and insurance, health and education services;

2. Any service deals between an employer and employee either as a service provider, service taker or vice versa;
3. Any unprocessed food commodities which comes under the public distribution structure should be excluded irrespective of the channel through which it is sold;
4. Education assistance provided by private schools and colleges; and
5. Health services given by non-Governmental bureau.

GST Valuation Guidelines

Perseverance of the price of domestically and internationally produced goods and cost of services under the present indirect tax system is administered by distinct valuation guidelines for both central and state taxes. Appearing at a price for the goal of imposing indirect taxes has been a very complicated and combative issue under the present indirect tax regime. Examples of numerous taxes on the common base proliferate. Henceforth, dual taxation on the same transaction as 'sale of goods' beneath inter-State VAT tax levy and 'provision of services' beneath Service tax has been a matter beneath the existing system.

GST regime that is suggested by the Empowered Committee has following doctrine that appears and should be thought out for building of provisions disclosing to valuations:

- Valuation of flow of goods and services to be smooth and based on Transaction cost principle.
- Systematic valuation provisions to be made commensurable across the States with fair

clarification on analysis of price alterations by issue of credit notes and debit notes, after-sale discounts. This will eliminate the unpredictability that present in the existing structure.

- GST system would try to remove the dual taxation issues that are confronted in case of compound supplies like software, taxation of restaurant supplies, catering, etc.
- Works contract approach to be unified to confront issues connected with the method of valuation and free stock supplies.
- With elimination of definitive duty rates and approaching towards eliminating duty rates on personal property, special valuation rules for goods that account to exclusive duty rate to be eliminated and unify with the universal valuation provisions.

RECOMMENDATIONS FOR EFFECIENT IMPLEMENTATION

Some recommendations for effective legislative mechanism to knob the implementation of Goods and Services Tax Act in India are mentioned below:

- Uniformity of systems and processes.
- Systematic dispute settlement mechanism.
- Suitable training for both tax payers and tax executioners.
- Re-construction of administrative mechanism for GST execution.
- Developing information technology backbone – the special most distinct initiative for GST execution.
- Synchronize execution of GST should be applied across all states as many problems might come up in case of transactions between states who follow with GST and states who are not adhere with GST.
- Periodic review of GST applicability according to changing economic conditions in the country.

Conclusion

The current structure allows for elimination of taxes that are being collected through a disorganized and incompetent system. The introduction of GST is likely to elucidate and thereby bung the inadequacy in present system. This will authorize the government to halt larceny and synchronize the comprehensive taxation regime. Although, many sections are either below-taxed or without taxed or over-taxed, the GST will help lessen overall tax load of many concerns. Launching of a unified Goods and Services Tax (GST) to revive the prevailing multiple tax structure of Centre and State levies is not only enticing but crucial in the emerging economic development. Moreover, Indian economic system is getting more and more globalised. In present scenario, various Free Trade Agreements have been marked, that will permit either duty free or minimal duties imports in India. Therefore, there is requirement to have a nation-wide smooth and crystal clear system of taxation that will facilitate the Indian businesses to face challenges not only globally, but also in the national market. Unification of multiple Central and State taxes into a GST regime would make it conceivable to provide complete credence for inputs taxes accumulation. If GST is enforced in the real essence, it will provide many benefits to the stakeholders and will point to an improved tax system.

REFERENCES

BOOKS

Sury, M M, “*Finance Commission Of India 1925 to 2007: History, Policy, Trends and Outlook, Indian Tax foundation*”, New Delhi Reports, I to XII, 1952-57 to 2005-10 pp.511-544, 2006.

Bhogavalli Mallikarjuna Gupta, “*Roll up your sleeves- The impending Tax Reforms in India*”,Notion Press, pp.72-89, 2015.

N.K.Gupta, Sunaina Bhatia, “*Goods and Services Tax-Indian Journey*,” Bharat Law House pp.23-34, 2015.

Gururaj, B.N., "*CENVAT on Goods and Services 2010-2011",* New Delhi, Nabhi Publication, 2010.

Datey, V S, "*Demands Penalties & Appeals Under Service Tax/Excise & Customs Laws",* New Delhi, Nabhi Publication, 2009.

JOURNAL

Makarenko, Jay, "*The Goods and Services Tax: Overview & History, Economy, Trade & Finance*", p12-16. 2007.

REPORTS

Finance Minister, "*Opening Remarks made by finance Minister at the Beginning of the Discussion On the Finance Bill 2012*", Press Information Bureau, New Delhi,2012.

Empowered Committee of State Finance Ministers, "*First Discussion Paper on GST*", Government of India, New Delhi, 2009.

Thirteen Finance Commission, "*Report, Government of India*," New Delhi, 2009.

ONLINE SOURCES

Halakhandi, Sudhir, "*Good and Service Tax,* Taxpayers,"

http://www.caclubindia.com/articles/goods-and-service-tax-ca-sudhir-halakhandi-3676.asp.2009.

2. Ramaa & Advocates, Venkatesh, "*Service Tax in India,*"

http://www.hg.org/article.asp?id=4850.2007.