

GST: ISSUES AND CHALLENGES

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ABSTRACT

GST or Goods & Service Tax is amongst the most monumental Indirect Tax Reform that the nation has seen over a period of time. This concept aims to simplify the present complicated taxation system and promote ease of doing business in the country. The amalgamation of various state and central taxes would help in realization of One Nation One Market- the idea to create a universal economic zone with uniform rules. There have been various apprehensions by states and corporate over its nature and implementation such as Multiple Tax Slabs, Loss of Revenue to states, Decrease in Financial Powers of States, Licensing and so on. Other Challenges being Coordination among states and center, Increased revenues etc. But the GST Council has been working in positive direction to sort out the glitches. The new taxation under GST would be Destination based rather than the current Origin based and making the system more transparent. It also aims at removal of Cascading effect and increase Tax-GDP Ratio. Conclusively, the Government of India should work towards building consensus amongst states and center along with protecting the nation with probable inflation due to implementation of new regime.

KEYWORDS: Tax Reform, GST, CGST, SGST, IGST, Cascading effect, GDP, Universal Economic Zone.

Introduction

GST- GOODS & SERVICE TAX was first proposed in 2003 by Kelkar Task Force on indirect taxes, who had suggested Compilation of numerous central and state indirect taxes into one indirect tax. To bring it into effect, an Empowered Committee of State Finance Ministers was formed for easing out the differences and taking this monumental reform forward. Subsequently, the Government Proposed 122 Amendment Bill in the Parliament to amend the Constitution.

Features of 122nd Constitutional Amendment Bill

- Granted simultaneous powers upon Parliament and State Legislature to make laws over GST.
- Levy of IGST on interstate transactions of goods and services.
- GST on all goods and services except alcoholic liquor, Petroleum products shall be under the purview of GST as decided by the GST Council.
- GST Council, a constitutional body, created with 2/3rd representation from states and 1/3rd from center to scrutinize issues related to GST and Make recommendation on rates, taxes, cess, surcharges, exemption list, dispute resolution etc. All decisions in GST Council to be decided by ¾ majority.
- The council will be chaired by the chairmanship of Union Finance Minister.
- Compensation to states for the total revenue losses for 5 years.

Features of GST

- One tax on supply of goods and services, from the manufacturer to the customer.
- It's a destination based tax unlike the current taxation system which is origin based.

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- It is a value based tax and input tax credit paid at each stage will be redeemed in the subsequent stages.
- The end consumer will pay only the GST charged by the last member in the supply chain.
- At the central level, following taxes are merged under GST:
 - Central Excise Duty
 - Additional Excise Duty
 - Service Tax etc.
- At the state level, following taxes are merged under GST:
 - State VAT/Sales Tax
 - Entertainment Tax
 - Central Sales Tax etc.
- **Administration of GST**
 - Due to federal structure in India, there are two components of GST – Central GST and State GST; to be simultaneously levied.
 - The tax will not be levied on exempted goods (alcohol, petroleum products) and on those transactions that are below the decided threshold limits.
 - Input tax credit of CGST will be available for settling liability on CGST itself. Ditto for SGST. Thus no cross utilization of credit is allowed except in case of IGST.
 - IGST would apply when there is an inter state transfer of goods and services (u/a 269A(1)). IGST rate would be approximately be equal to the sum of CGST and SGST.
 - For smooth implementation of GST, Goods and Services Tax Network (GSTN) is set up, which is a non-profit, non-government company to provide shared IT support to central and state governments, tax payers and other vested parties. The tax payments and credit will be done through an online network.
 - Taxation on Imports–SAD and CVD on imports to be merged under GST. The states where goods are imported will get their share from the IGST paid on imported goods.

Benefits

- **For Business and Industry**
 - Easy acceptance as one tax to be paid.
 - Creation of one nation one market to facilitate Ease of Doing Business in India.
 - Removal of cascading effect which will lower prices and boost sales.
 - The reduction in transaction cost of business would increase competitiveness.
- **For Consumers**
 - No cascading effect of taxes would mitigate inflation.
 - Transparency in taxation system and easier to comprehend for the customers.
- **For government**
 - The new taxation system will be easier to supervise by the government. Also, input tax credit system develops a network for self-policing.
 - Dual monitoring by center and states will lead to tax competition and cooperation between center and states.
 - Effective control over leakages because of lesser evasion.
 - Higher revenue efficiency to be spent on welfare programs.

GST and its impact on Fiscal Federalism

The Constitutional provisions with respect to Fiscal Federalism has two major imbalances

- **Vertical Imbalance:** The disequilibrium between expenditure and revenue requirements of States & Center.
- **Horizontal Imbalance:** There is disparity in revenue accrued by the states.

Issues Related to GST

- States will lose their autonomous powers in deciding taxation rate. In GST regime, GST Council would decide rates.
- The other issue of state's ability to impose sin tax on goods such as fast food (Kerala).
- Certain states like Maharashtra, UP fear loss of revenue on Account to GST.
- Multiple tax slabs- from 5% to 28% is confusing and complicated.

- Prescribing a Revenue Neutral Rate – A revenue neutral rate is that which neither lead to a fall in tax revenues nor promotes inflation.
- To set up an exemption limit below which traders will not fall under GST regime.
- Developing the IT infrastructure for efficient administration of GST.
- Creating an effective mechanism to accommodate dual policing by center and state to implement and supervise GST.

However, it is to be realized that GST is the need of the hour. The Indian GST system offers advantages unlike the GST regime in large nations, where the system is either too centralized (Australia) or is independently administered (South Africa). The Indian system establishes balance in our federal structure like in Canada. Common rate and common base will ease tax administration and ensure prompt adherence. Reasonable exceptions provided by GST Council, will ensure and upheld the fiscal autonomy of states. The GST Council has emerged as a pivot for stronger Centre State Relations. A reform of the magnitude and significance of GST will require a leap of faith (to be taken), as issues are definite to crop up, that are to be resolved effectively through the aforementioned mechanism.

Challenges to GST

- GST is indirect tax. Indirect taxes are regressive as it affects the poor more than the rich.
- Critics say that GST would impact negatively on real estate market. It would increase the cost of new homes by 8% and reduce demand by up to 20%.
- India has adopted Dual GST i.e. CGST & SGST. The main roadblock is the coordination among states.
- Some Economists view that CGST, SGST, IGST are new names for Central Excise/ Service Tax, VAT, and CST. Hence GST does not bring anything new to reform Taxation System.
- Creation of new IT System as backbone for the administration system is an uphill task.

Conclusion

GST is one amongst the many steps that the current government has taken to reform the existing complicated Taxation system. Its still in the nascent stage and is going through the teething problems. For effective implementation there is requirement for trained staff and skill up gradation for existing staff. Also, Center and States have to conform upon a uniform GST rate, interstate transactions of goods and services and infrastructural assiduity to implement the tax reform comprehensively. For the GST regime to be Successful, it is important to not only reduce costs of compliance within the system but also make more effective the costs associated with evasion.

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