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GST: A PARADIGM ROAD MAP FOR GROWTH IN INDIA

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ABSTRACT

In July 2017, GST Bill was launched in India. It is described as the biggest fiscal reform aimed at simplifying and rationalizing the present system of taxation by transforming the nation into a amalgamated market through a dual levy (State and Central GST) mechanism. The strong federal structure of government is particularly helpful for ensuring accomplishment of this model of revenue sharing. Moreover, inter–state supplies will create a center of attention for an Integrated GST, which will replace a host of indirect taxes and lesser tax burden by taxing Inter-State business deals only once. GST in India is a four tiered structure, with lower tax slabs (of 0% & 5%) aimed at making it less regressive. France was the first to introduce GST in 1954; since then 160 countries have adopted different models of VAT/GST. VAT/GST rates differ widely among countries – from 5% in Canada to 22% in Italy. India has higher rate of GST at 18% as against other emerging market economics and likely necessitated by the fact that indirect taxes continue to be the main supply of income for the government. This article provides a general idea of Goods & Services Tax (GST) in India by synthesizing the information available in the most recent government documents, newspaper reports and articles, published pre and post the launch of GST. It aims to provide an understanding of GST in comparison to previous taxation regime and describes the global experiences of VAT/GST that was taken into account by RBI. It touches upon the changes in GST subsequent to its roll out and thus, provides an updated view of various developments related to GST in the country.

KEYWORDS: *Fiscal, GST Bill, Tax Regime, Indian Taxation Policy.*

Introduction

On 1 July 2017, India launched its biggest ever fiscal reform, the Goods & Services Tax Bill or **GST Bill India.** It was issued as the Constitution (122nd Amendment) Act 2016, after the Constitution 122nd Amendment Bill. It is governed by the GST Council and its Chairman, Union Finance Minister of India. This tax reform is aimed at simplifying the existing arrangement of taxation by transforming the nation into a integrated marketplace by replacing all the indirect taxes with one tax[i]. It represents a historic opening to cut back on the tax system that is complicated in terms of rates and structures.[ii]

Meaning of GST

Both Goods & Services Tax (GST) and Value Added Tax (VAT) are indirect taxes charged on the value added to the product. These are indirect taxes because they are charged on services or commodities before they are sold to the customer but customers ultimately pay as part of market price before it is paid to the government.

GST is based on the destination principle, which is impartial with regard to cross-border business. The destination approach ignores where goods are created; instead, the tax depends on where consumption occurs.[iii]

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GST is an indirect tax charged from corner to corner in India to put back other taxes charged by the state and central government. The GST bill will do away with all the cascading effects of indirect taxes on distribution and manufacturing costs on services or products.

GST in India is a dual charge with State/Union territory GST and Central GST. Moreover, inter–state goods attract an Integrated GST, which would be the sum total of CGST and SGST/UTGST.

Thus there are three tax components of GST:

- Centre GST (**CGT) –** Central GST applicable on goods & services within the state. Tax collected goes to the Centre.
- State GST (**SGST)/ Union Territory (UTGST) –** State/UT GST, applicable on goods & services within the state/UT. Tax collected goes to the State/UT.
- Integrated GST (**IGST) –** Integrated GST applicable on interstate and import transactions. Tax collected is collective shared between Centre and State.

Why GST?

A common base and common rates across goods and services and alike rates across states and between Centre and states will smoothen the progress of better tax administration, improve tax compliance, improve cascading or double taxation while also ensuring ample tax collection from inter-state sales.[iv] GST should help keep India in the choice of countries with rational levels of indirect taxes.[v]

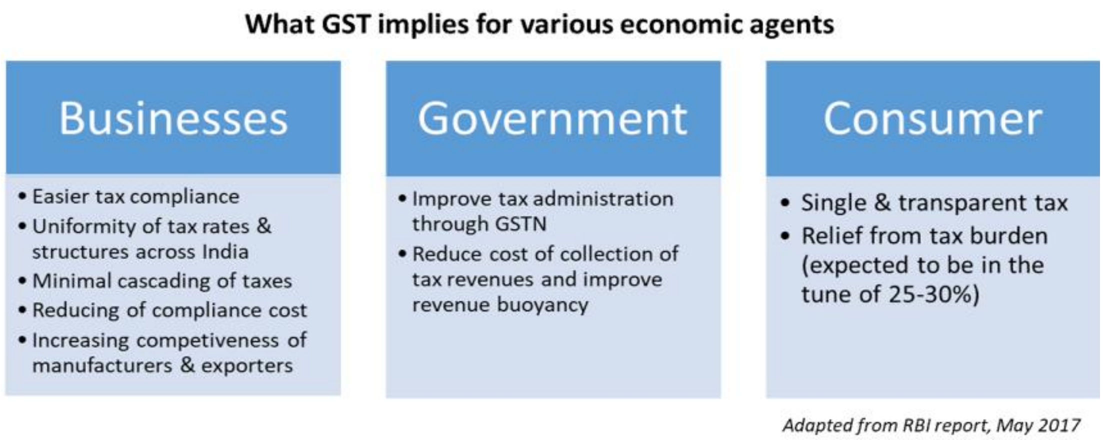


Fig 1

The GST also represents a notable opportunity to 'Make in India' by 'Making One India'. Getting rid of all taxes on inter-state trade (including the 1 percent additional duty) and replacing them by one GST will be decisive to achieve this objective.[vi] RBI in its report stated that execution of GST is expected to make sure advanced tax buoyancy and an enhancement in government funds over the medium term.[vii]

Difference between GST and Traditional Taxation

Previously VAT was charged on goods at various rates and service tax for services, while in GST these will be subsumed into single tax as the name Goods and Services Tax suggests. Credit of CST and various other indirect taxes wasn't allowed in the previous tax structure and certain taxes became element of the cost due to presence of cascading outcome (see table 1 for an example). Tax compliance was complicated owing to the multiplicity of laws and their provisions. Every state levied their own tax fee which increased the amount of taxes as the goods are being transported between states.[viii]All these issues have been addressed in GST regime. Some of the key differences have been listed in the table below:

Table 1: Current taxation system and GST System

Conditions	Current Taxation System	GST System
Tax Structure	• Under separate laws, tax is levied by Central Govt. and State Govt. on goods and services.	• There is no separate tax levied for goods and services. GST is a common tax applicable to both of

	• In the Current taxation system import of goods into India is subject to a levy of customs duty and the person importing the goods is liable to pay customs duty at the applicable rates.	these. • In the GST System till the goods or services reaches the consumer, this GST tax would allow smooth and continuous tax credit at all levels.
Place of Taxation	**Origin based taxation**	**Destination based taxation**
Threshold limit	• Central Excise-**1.5 Crores** • VAT-Varies from INR **5 to 20 Lakhs** from state to state • Service Tax- INR **10 Lakhs**	**CGST& SGST**– INR**10 Lakhs** to **20 Lakhs** as recommended by GST Council.
Broad scheme	Separate laws for charging separate taxes	One law for various taxes
Tax rates	Different tax rates for different taxes.	There will be one **CGST** rate and a uniform **SGST** Rate across all states.
Tax burden	Tax burden is high for the individual to pay so many taxes.	Tax burden is low because of single tax so the work splits between the manufacturing and service sector.
Transparent tax administration	Under this the tax is levied on two stages: • When the product moves out of the factory • At retail outlet	It is levied only at the final destination of consumption.
Compliance	Tax compliance is complex due to multiplicity of tax.	Tax compliance is easier because of one law.

Let us take an example to understand this clearly:

Table 2: Cascading of costs under traditional taxation compared with reduced tax burden under GST

	Present Tax System	GST System
Product Sold from Delhi to Mumbai	Price = Rs.1000	Price = Rs.1000
	VAT @ 10% = Rs.100	CGST @ 5% = Rs.50
	Total Cost = Rs.1100	SGST @ 5% = Rs.50
		Total Cost = Rs.1100
Product sold from Mumbai to Chennai	Cost Price = Rs.1100	Cost Price = Rs.1100
	Profit = Rs.1000	Profit = Rs.1000
	Sell Price = Cost + Profit	Sell price = Cost + Profit
	Sell Price = Rs.2100	Sell price = Rs.2100
	CST @ 10% = Rs.210	IGST @ 10% = Rs.110
	Total Price = Rs.2310	**Total Price = Rs.2210**

The Global Experience

The Reserve Bank of India (RBI) released a report named "State Finances: A Study of Budgets of 2016-17" in May 2017, where experiences of 160 countries which had implemented the Goods and Services Tax (GST) or the Value Added Tax (VAT) were reviewed/studied. The report noted how successfully the tax system was implemented in these countries and what could be the probable challenges India could face when India implements the fresh tax system. The report states that some perils are implicated with the implementation of the GST; these perils are related to inflation, tax avoidance and tax evasion. As per the report, while France was the first to set up GST in 1954, 160 countries have since then adopted different models of VAT/GST with some countries having dual-GST, for example Brazil and Canada.[ix]. In most countries value added tax (VAT) is taken as an alternate for GST. Presently, countries like Australia, Canada, Singapore, New Zealand, Hongkong, Malaysia, etc. have a GST structure while remaining follow a VAT scheme. Among the latest countries to take up GST are Seychelles, Congo, Gambia and Malaysia. [x] The most universal reason for adopting VAT/GST across the orbit seems to be that of reforming the present tax system and simplifying the tax composition. In this regard, a tough centralized constitution of government is predominantly helpful for ensuring triumph of such reforms – Brazil and Canada being well-known examples.

VAT/GST rates differ widely amid countries – varying from 5% in Canada to 22% in Italy. Singapore taxes nearly everything at a sole rate, while many countries (France, Italy and UK) have numerous rates. In some countries (e.g. UK), a compact rate on essential items is applied with fundamental goods being exempted to diminish the regressive blow of the tax.[xi] The report also shows that GST rates had to be revised in many countries in order to meet various objectives. New Zealand introduced GST in 1986 at a rate of 10%. However the rates were changed two times afterwards – 12.5% in the year 1989 and 15% in 2010 in a move to activate higher revenue while removing deformation in the tax arrangement. This led to acceptance of GST at single charge with food integrated in the GST base at the full rate. Such broad-based the tax web and also reduced mutually compliance and administrative costs. At present, the country is peak tax productive nations among OECD countries.[xii]

Australia put into practice GST in July 2000 at a tax fee starting at 10%. However, the 10% tax rate led to little GST revenue productivity from a tax compilation standpoint. Malaysia introduced GST at a standard rate of 6%. After accomplishment of GST, the expenditure of doing business in Malaysia condensed as the tax burden was relocated from manufacturers to consumers. Yet, the state has seen near to the ground returns productivity in terms of tax collection. From a fiscal viewpoint, international data suggests that execution of VAT/GST have resulted in an advanced government revenue-GDP ratio over time. Although the specific impact of GST is difficult to gauge exactly, normal expansion increased by about 0.7 percentage point following financial (including tax) reforms in some highly developed economies.

As it encourages competitiveness, an efficiency add from GST is considered to be superior *vis-a-vis* other taxes, the repayment of which builds up to development over the medium-term (IMF, 2006). In the short term, however, it may outcome in lower development as households regulate their spending after GST execution. The facts also suggest that execution of GST may be inflationary under explicit conditions. Cross country data suggests that beginning of a VAT/GST regime can lead to inflation, however the impact is not uniform. While the implementation of a VAT in UK resulted in no major impact on inflation, Canada & Singapore experienced inflation pressures after introduction of the GST. Australia and New Zealand saw one-off enlargement in inflation post GST execution which normalized in a year. Malaysia turned out GST in 2015. It led to a quick rise in inflation despite the fact that revenue improved considerably. Inflationary trend took one year to go down.

Notwithstanding the virtues of GST accomplishment, international incidence points out some likely threats relating to tax elusion and avoidance. These are (i) undersized businesses may not get indexed; (ii) a dealer may under-report real sales; (iii) traders may lessen their responsibility by overstating the proportion in the lower tax slabs; (iv) tax authorities have to to guard against dealers who collected tax but were not passed on to the government; and (v) dealer may make false claim for refunds.[xiii] These experiences provided examples for India and to get ready for some of its objectionable effects. Drawing on lessons in the implementation experience of countries, a well-designed GST should ensure that it will fetch in “One nation one tax” to bond indirect taxes under one umbrella and make possible Indian businesses to be internationally competitive.

Indian Model of GST: Similarities & Differences/ what Differentiates India[xiv]

- One big demarcation between GST in India and GST in other countries is that, in India two types of GST is charged - hence called as dual GST. India has chosen the Canadian model of twin GST as it has a centralized structure where the Centre and states have the powers to charge and collect taxes.[xv]
- India has maximum rate of GST at 18% weighed against emerging market economics.[xvi] EMEs like China and Brazil have their most of products falling under the tax rate of 17%, 10% respectively. However, some of the urbanized countries like France, Germany and United Kingdom have higher GST rates set between 19 – 20%. Latest data of OECD stated that standard VAT/GST rate in major OECD countries is flanked by 20-22% higher than the rate in India.
- In developed economies, greater part of the tax revenues will be direct. Most citizens give income taxes with very less exceptions. In India, greater part of the tax revenues is indirect as less than 3% of the total population pays income tax. This means that in order to achieve fairness/equity, indirect taxes have to be higher while providing subsidies/ discounts to those in the lower income quintile [many items are taxed at 0% or 5% or 12%] and then compensate this by taxing the rich [at 28% on luxury and sin items].

- India has diverse rate slabs (0, 5, 12, 18 & 28 percent) unlike other countries which charge at a single rate. European countries have one rate of GST. But in India there are large inequities which require that poor families are not burdened with the same tax as those in higher income groups/families.[xvii]
- Compared to other countries India has a much lower entry for GST applicability thus increasing the burden for small businesses.

Table 3: GST in India Compared to other Countries

Particulars[xviii]	**India**	**Canada**	**UK**	**Singapore**	**Malaysia**
Name of GST in the country	**Goods and Service tax**	**Federal Goods and Service Tax &Harmonized Sales Tax**	**Value Added Tax**	**Goods and Service Tax**	**Goods and Services Tax**
Standard Rate	0% (for food staples), 5%, 12%, 18% and 28% (+cess for luxury items)	GST 5% and HST varies from 0% to 15%	20 %; Reduced rates- 5 %, exempt, zero rated	7% ; Reduced rates- Zero rated, exempt	6%
Threshold exemption Limit	20 lakhs (10 lakhs for NE states)	Canadian $ 30,000 (Approx. 15.6 lakhs in INR)	£ 73,000 (Approx.. 61.32 lakhs in INR)	Singapore $ 1 million (Approx. INR 4.8 crore)	MYR 500,000 (Approx. 75 lakhs in INR)
Filing of Returns and payments	Monthly and 1 annual return* *(Since October 2017 made quarterly from small taxpayers/business instead of monthly)*	Monthly, quarterly or annually based on turnover	Usually quarterly. Small business option- annual	Usually quarterly Business option- Monthly returns.	Large organizations- Monthly
Exempt services	Manufacture of exempted goods or provision of exempted services (as notified)	Real estate, Financial Services, Rent (Residence), Charities, Health, Education	Medical, Education, Finance, Insurance, Postal services	Real estate, Financial services, Residential rental	Basic food, Health Transportation, Residential property, Agricultural land

Source: Adapted from online article, GST in India vs GST in other countries – how India differs; Updated on Jun 09, 2017

India GST Rates for Various Goods and Services

GST rates in India were determined in a way such that they were close to or equivalent to effective taxes on such goods and services in the erstwhile system across central and state levies.[xix] GST Council has agreed upon a four-tier consistent tax slab of 5, 12, 18 and 28 per cent on goods and services, plus an additional cess on demerit goods such as luxury cars, aerated drinks and tobacco products. Food items will not attract any tax and have been kept in the zero-per cent slab. Similarly, petroleum products, although included under the GST, will remain in zero tax slab as of now. However, the GST Council is yet to take a call on whether to keep alcohol under the Goods and Services Tax.[xx]

The GST council has placed tax rates for goods and services under five bands of 0%, 5%, 12%, 18% and 28%. A large quantity of goods and services are charged at the rate of 18%. After the GST council decision of November 11, 2017, the 18% category will have even a greater share, while goods and services charged at 28% will shrink significantly.

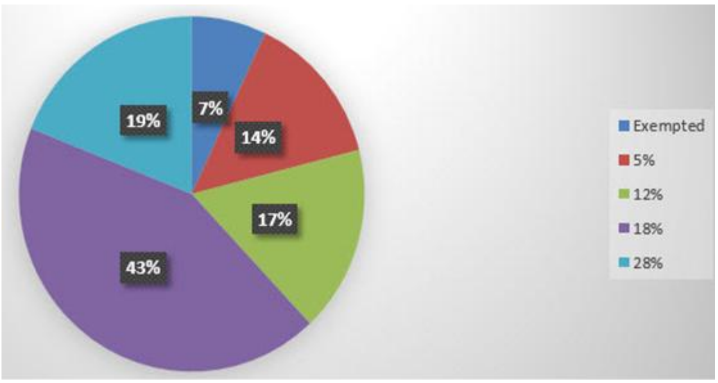
Table 4: Rate Classification for Goods[xxi]

Exempt	5%	12%	18%	28%	28% + Cess
Food grains Cereals Milk Jaggery Common Salt	Coal Sugar Tea & Coffee Drugs & Medicine Edible Oil	Fruit Juices Vegetable Juices Beverages containing milk Jams	Kitchenware Hair Oil Soap Toothpaste Glass fibre	Air conditioner Refrigerators	Small cars (1% / 3% cess) Luxury cars (15% cess)

GST rate on pearls, precious or semi-precious stones, diamonds (other than rough diamonds), precious metals (like gold and silver), imitation jewellery, coins - 3%

GST rate on rough diamonds – 0.25%

Figure: Rate classification of goods



This chart shows the percentage of goods and services charged at different rates under GST at the time of roll out in July 2017.

Source: http://www.ey.com/in/en/services/ey-goods-and-services-tax-gst

Table -5: Rate classification for services[xxii]*

Exempt	5%	12%-18%	28%
Education Healthcare Residential accommodation Hotel/ Lodges with tariff below INR 1000	Goods transport Rail tickets (other than sleeper class) Economy class air tickets Cab aggregators Selling space for advertisements in print media	Works contract Business Class air travel Telecom services Financial services Restaurant services Hotel/ Lodges with tariff between INR 1000 and 7500	Cinema tickets Betting Gambling Hotel/ Lodges with tariff above INR 7500

**Only rates of select goods and services have been mentioned here*

GST Implementation: What Changed In First 100 Days

Goods and Services Tax (GST) has completed more than 120 days since its launch in July 2017; since then some changes that have been made to the GST rates and compliance requirements. To lessen the burden of compliance for small businesses (turnover < 1.5 crores), government has reduced the compliance burden by delaying the return filing to one time a quarter (from October 2017) rather than once a month. To provide relief for Service Providers, those with aggregate earnings is less than INR 20 lacs (10 Lacs in out of the ordinary category state except for J&K) are exempted from registration yet they are making inter-state supplies of services. Small taxpayers will be required to file GST returns only once every quarter.

The revenue doorstep for composition system, under which businesses can pay taxes at an insignificant rate, has been hiked to INR 1 crore, from INR 75 lakhs earlier. Relief was provided for jewelers as the customers no longer require furnishing PAN card on jeweler purchase of more than INR 50,000. The amount of jeweler buy for which KYC will be required will be determined afterwards. Significant rate changes were brought about in the 22nd& 23rd GST council meeting by reducing rates form a number of goods and services.[xxiii] The 23rd GST Council meeting held on 10th November 2017 decided to maintain only 50 items, mostly demerit, sin and luxury goods in apex 28 per cent tax range. As a result 177 objects have been shifted to the 18% range. GST on many objects has also been reduced.[xxiv]

Meanwhile, the government has decided to arrange thousands of proficiency trainers who will help undersized businesses as well as individuals in filing returns as per the Central government's new guiding principles. The Central Board of Excise and Custom's (CBEC) with over 4,500 GST seva kendras will also assist these individuals. The stride has been taken to help little traders after the government faced condemnation for the multi-stage structure that needs to be pursued to file returns.

Under the government's composition scheme - apart from exclusion from the filing of details such as invoices, and discount on card or electronic wallet payments - those with yearly turnover of INR 1.5 crore would have to just pay 1% tax flat.[xxv]

Conclusion

The GST tax system has been a replica of joint federalism in practice with the Centre and states coming jointly as associates in embracing expansion and employment-enhancing modifications.[xxvi] The acceptance of the GST is probable to add 2 full percentage points to India's GDP. The simulative effect is expected to come from the removal of inner trade hurdles that are well known to Indian businesses. The GST will put back a patchwork of local levies that function like tariffs on commodities produced in other parts of the nation. That's an encouraging scenario for the ability of tax reform to boost GDP. [xxvii]

The Committee headed by the Chief Economic Adviser Dr. Arvind Subramanian has made important observations on GST. Domestically, GST will help improve control, strengthen tax institutions, make possible "Make in India by Making One India," and pass on optimism to the tax base. It will also set the worldwide standard for a value-added tax (VAT) in large federal systems in the years to draw closer. For the future, GST should aspire at tax duties that guard revenue, make simpler administration, support compliance, avoid adding to inflationary stress, and keep India in the array of countries with rational levels of indirect taxes. In line with increasing international practice and with a view to make possible agreement and supervision, India should do its utmost toward a one-rate arrangement as the medium-term ambition. Facilitating easy execution and taxpayer falling in line at an early stage—via low rates and without adding to inflationary pressures--will be serious. Implementing a new tax, encircling both goods and services, to be put into operation by the Centre, 29 States And 2 Union Territories, in a large and complex federal system, via a constitutional alteration requiring broad supporting agreement, affecting potentially 2-2.5 million tax entities, and marshalling the latest technology to use and get better tax implementation potential, is perhaps unique in modern global tax history.[xxviii] The execution of GST would be the single most significant tax development undertaken since the beginning of economic reforms with far reaching fiscal consequences for the federal structure of the Indian government.[xxix]

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