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Goods and Services Tax: Indian Scenario

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Goods and Services Tax (GST) is a Value Added Tax (VAT) to be implemented in India, the decision on which is pending. It will replace all indirect taxes levied on goods and services by the Indian central and state governments. It is aimed at being a comprehensive tax measure for most goods and services. On 22nd May, 2014, a bill was introduced in parliament by the Government for a nationwide adoption of the Goods and Services tax.

What will be the actual impact of GST launch in India, its benefits, problems in implementation and the roles played by central and state authorities shall be examined and analyzed. What will the government loose simultaneously by implementing GST should also be discussed.

GST is a simple, transparent and efficient system of indirect taxation adopted by 130 countries. This involves taxation of goods and services in an integrated manner as the blurring line of demarcation between goods and services has made separate taxation of the two untenable.

Supplies of goods and services in India are subject to local and state indirect taxes. Taxes on the sale of moveable goods and supply of services are administered by the Central Government and the local State Governments. While the State Governments are empowered to tax the sale of moveable goods within their state, the Central Government has the authority to tax inter-state sales of moveable goods and the supply of services.

GST – also known as VAT in some countries is a multi stage consumption tax on goods and services. GST is levied on the supply of goods and services at each stage of the supply chain from the supplier up to the retail distributor. Even though GST is imposed at each level of the supply chain, the tax element does not become part of the cost because GST paid on the business input is claimable ,therefore it does not matter how many stages a particular goods or service goes through the supply chain because the input tax incurred at the previous stage is always deducted by the businesses at the next step in the supply chain.

The basic fundamental of GST is its self policing features which allow the businesses to claim their input tax credit by way of automatic deduction in their accounting system. This eases the administrative procedure on the part of businesses and the government. Thus, the government delivery system will be further enhanced.

The Kelkar Task Force on implementation of Fiscal responsibility and Budget management Act 2003 had pointed out that although the indirect tax policy in India has been steadily progressing in the direction of the VAT principle since 1986, the existing system of GST still suffers from many problems and suggested a comprehensive policy on taxing goods and services.

A proposal to introduce national level GST from April 1st,2010 was first mooted in the budget speech of 2006-07.Since the proposal involved reform/restructuring of indirect taxes by the centre as well as the states ,the responsibility of preparing the design and road map to implement GST was assigned to the Empowered Committee of State Finance Ministers.

In 2008, the Empowered Committee (EC) submitted its report and recommendations about the structure and design of GST. In response to the report, the department of revenue made some suggestions to be incorporated. Based on this, the EC presented the first discussion paper in November 2009 with the objective of generating debate and taking opinions of all stakeholders.

Introduction of GST to replace the existing multiple tax structures of centre and state taxes is not only desirable but imperative in the emerging economic environment. Increasingly, services are used or consumed in production and distribution of goods and vice versa. Separate taxation of services often requires splitting of transaction value into value of goods and services for taxation which leads to greater complexities , thus increasing the costs incurred on compliance and also the administrative costs.

Integration of various central and state taxes into a GST system will make it possible to give full credit for input taxes collected. GST being a destination based consumption tax based on the VAT principle, would also greatly help in removing economic distortions caused by the present complex tax structure and will help in the development of a common national market.

When the benefits of GST for the economy are analyzed, we see that GST 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 GDP ratio. According to a report by the National Council of Applied Research, GST is expected to increase economic growth by 0.9% to 1.7% .Exports are also expected to increase by 3.2% to 6.3% while imports will rise by 2.4 % to 4.7%

Analysis of benefits to corporations shows that it will be beneficial for India Inc. too, as the average tax burden on companies will fall, and reduced production cost will make exports more competitive.

Examination of cost analysis reveals that the highest rate of taxation under GST would be around 15% in the first year and eventually will come down to 12% in the second year. By comparison the current rate of various indirect taxes levied in India amounts to roughly 20% . Goods deemed essential for basic human existence can be taxed at a lower rate.

Some states fear that a uniform tax rate ,if lower than their existing rates will dent their tax collections. However, the central government has said it will compensate states for the potential revenue loss.

Categories exempted from GST:

Export, direct taxes such as income tax, corporate tax and capital gains tax will not be subjected to GST. Both the state and central government will impose GST on almost all goods and services produced in India or imported in the country.

According to a recent report by the World Bank, GST could be a game changer for India. According to this report, inflation is still uncomfortably high in India and the new government should avoid the fiscal slippage as it seeks to revive the economy. According to the World Bank, inflation is a long term threat to the country. Presently, the wholesale price inflation is at a five months high and retail inflation remains at 8%.

The previous government in its interim budget had projected a larger deficit of 4.1% of the GDP for the current financial year. The gap is already $ 40 billion. We need a shift from consumption to investment pattern, and seek to broaden the government's narrow tax base.

Budget 2014 on GST:

Finance minister Arun Jaitley has strongly signaled that the NDA government will roll out the proposed GST next year, reassuring the states that all their concerns will be addressed. The tax was to be originally rolled out on April 1 ,2010 but got held up due to differences between the centre and the States. The centre is expected to seek an expeditious resolution of the controversial issue of central sales tax compensation that has held up the implementation of GST.

The Finance minister has assured that he would speak to the state governments on the inclusion of most items within the ambit of the new tax . States want to keep petroleum products and entry tax out of the GST net. Industry, however is batting for inclusion of these items to ensure an effective GST. Many states have been reluctant to agree to this reform even as they acknowledge that the GST will streamline indirect tax administration and bring higher revenue to them ultimately.

A study conducted by NCEAR had estimated gains of 0.9% to 1.7% of GDP for the economy and similar gains for manufacturing and other sectors. The states are apprehensive that they will loose their fiscal autonomy.

Experts say that the centre can roll out this tax very quickly, from April next year. However, the mention of specific timelines and supporting legislative scheme would have given more confidence to the market.◆

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