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Review paper

Is Goods and Service Tax (GST) a Landmark in Indian Taxation System Indeed? A Review.

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Abstract

Implementation of GST has been considered as one of the greatest reforms in Indian Taxation system as it has subsumed almost all the existing indirect taxes such as Excise, Central Sales Tax, VAT and Service Tax etc., which used to put cascading effect on the prices of goods and services. Hasty and under-planned implementation of GST on the part of government posed many problems for the tax payers/ assessees and the government as well, during the initial years. But the government was able to remove most of the glitches side by side. GST has turned the whole Indian economy comprising various sectors and a population of 1.3 billion into a single unified market. Through this paper, an attempt has been made to discuss the need of implementing GST, its various advantages as claimed by the government and other stakeholders, as well as some of the challenges posed before them. At present, Global Economic slowdown has also affected almost all the sectors of economy and has made it a daunting task for the governments to achieve the target revenue collections. So in the present situation, where the economy is undergoing the toughest times, implementation of GST does not seem to bear the expected fruit.

Keywords: Goods and Services Tax, Indirect Taxes, Taxation Reforms, GST Compliance,

Introduction

Goods and Services Tax (GST) was implemented in India on July 1, 2017 by the government of India. The idea of implementing Goods and Services Tax (GST) was first proposed and initiated by our Late Prime Minister Sh. Atal Bihari Vajpayee in the year 2000 by forming an Empowered Committee to frame rules and regulation as the first step towards this direction and his vision came true on 1 July, 2017. Implementation of GST was the need of time on many accounts such as continuous pressure from the international bodies, Complex Taxation System (Indirect taxes) with various types of taxes, tax rates and scams of tax refund at state levels. Indirect Taxes being levied under pre GST regime can be classified under three broad categories (a) Taxes levied and collected by State Government (b) Taxes levied and collected by Central Government and (c) Taxes Levied by Central government but Collected by State government. The first category of Taxes i.e. levied and collected by state government comprised VAT, Entry Tax and Octroi Duty, the second category of taxes i.e. taxes levied and collected by central government comprised Central Excise Duty, Service Tax and Custom Duty and finally the taxes levied by central government but collected by state government comprised Central Sales Tax. Implementation of GST had been a source of debate since the proposal of this concept. Those who criticised the GST most under UPA government were found to be in hurry to implement the same when they had power in their hands later on. Government and the opposition had never been in consensus in case of GST on many issues but still government managed to implement the same by the beginning of 2nd quarter of financial year 2017-18.

GST has been classified in two brought categories viz. (a) GST on (Intra-State movement of goods and services) i.e., goods and services moving within the state and (b) GST on interstate movement of goods i.e., exchange of goods from one state to another state and imports as well. In former case the GST is levied as CGST (Central goods and services tax) and SGST (State goods and services tax) with equal weight-age of tax rate. For example, if a product falls under 5% tax bracket and for its sales within the state, tax will be collected from the customer under two heads CGST and SGST @ rate of 2.5% each, making no change in the total collection of tax. For Interstate movement of goods and services, tax is collected under the head of IGST (Integrated goods and service tax). Input GST paid on the purchases of goods and services availed for a particular period is to be set off against the Output GST collected from the customers on the sales affected during the same period. Excess of Input GST over Output GST is claimed as ITC (input tax credit) that is carried forward and set-off against the output GST collected in subsequent period provided all legal requirements (such as in time declarations and in time filing of returns etc.) are fulfilled.

Looking at the performance of the two and half years since the implementation of GST, has it proved to be a good move by the government is still a topic that can be debated.

Review of Literature: So far, GST has been studied by many researchers, academicians and practitioners and their work has been published in various journals as research papers, articles in newspapers and magazines etc. Most of the published work is pertaining to historical background of GST, its advantages and disadvantages for the economy. Some of those works have been reproduced below as a part of review.

Ehtisham Ahmad and Satya Poddar, (2009) opined that rationally designed and well implemented GST will result in increase in output and productivity of the economy on account of simpler and transparent taxation system. R Vasanthagopal (2011) concluded that replacing existing complex taxation system with GST would bring positive impact on Indian economy and would help it grow further. Roy chowdhury (2012) explained the importance of GST and need for replacing the existing system of taxation in a country like India where tax incidence fell primarily on domestic consumption. Syed, Mohd. Ali, Taqvi (2013), has explained the importance of GST to corporate world and the economy. They opined that proper implementation of GST would bear positive impact on various industries on account of easiness of doing business and increase in savings due to cost reduction resulting from elimination of cascading effect. This will ultimately empower the economy. Nishitha Gupta (2014) opined that GST implementation will boost Indian economy as it will broaden tax-payer base and will bring all such benefits to them which were earlier overlooked under Vat system. She emphasized that GST will lead to win-win situations for all the stakeholders such as Industry, Traders, Consumers and Government (both State and Centre). Pinki et.al. (2014) concluded that new government in India is all set to implement GST and it will prove beneficial for all stakeholders provided it is implemented with good homework and backed by strong IT infrastructure. Saravanan Venkadasalam 2014, studied selected ASEAN countries to know their growth after GST implementation on the basis of data of world bank and found that not all the countries under study experienced national growth during post GST period. This study was based on the Economic theory that household final consumption expenditure and general government expenditure are significantly positively related to country's GDP. Countries like Philippines and Thailand showed significant negative relationship with national development where as Singapore had positive. Dhani S (2016), Proposed GST appears to be unfavorable for telecommunication sector and may lead to inflation that would be serious issue for the government considering a big portion of our population being poor. No doubt GST would remove inefficiencies of the existing heterogeneous taxation system only if there is clear consensus over the issues such as threshold limit, tax rates and inclusion of petroleum products. Pardeep Chaurasia et. al. (2016) “In overall GST will be helpful for the development of Indian economy and this will also help in improving the Gross Domestic Products of the country by more than two percent”. Kumar C.R (2017) explained how GST was implemented with better conformity and revenue resilience. According to him GST will definitely eradicate cascading effect prevailing in indirect tax regime. By implementing GST in a developing economy like India, sustainable and balanced development can be accomplished. A. Dash (2017) concluded that GST would result in unifying the $2 trillion economy and 1.3 billion people into a single market but the government will have the daunting challenge of implementation of GST with flawless infrastructure and IT system as well as sharing of loss of revenue of the state governments. Shokeen, Banwari and Singh (2017) with only four tax rates i.e. 5%, 12%, 18% and 28% and elimination of cascading effect, the prices of goods and services will come down and consumption thereof will rise leading to immense growth of manufacturing sector. Nayyar, A and Singh, I. (2018) explained the concept of GST comprehensively along with its impact on various industries. According to them GST in India will favorably impact the Automobile, FMCG, Electronics industries being in lower tax brackets. P. Uma Sawroopa (2018) opined that the industries such as FMCG, Cement, Logistics, Automobiles and Consumer durables would be among gainers and the industries such as Mobile phones, Branded Jewels, Luxury cars, Restaurants, Pharmaceuticals and Oil & Gas would be losers under GST regime.

From the literature review it has been observed that implementation of GST has been reckoned as an important step towards reforming or restructuring Indian taxation system provided that the government goes with a proactive approach to meet the challenges opined by the researchers.

Objectives: Through this paper an attempt has been made to know

- The problems of Pre-GST regime making the implementation of GST a need of time.
- Advantages of GST to various sectors and stakeholders in the economy.
- Challenges posed before the business community and government during Post GST Regime.

Research Methodology: No first hand information has been used in this paper. Only secondary data was used to compile this paper tapping the sources such as articles available online, websites, research-papers, newspapers and magazines etc.

Why GST? Implementation of GST was the need of time on account of number of issues existing in the Pre GST Taxation System. Some of those prominent problems that made the system heterogeneous and more complex have been listed below:

- Excise Duty renamed as CENVAT was levied on the goods manufactured indigenously. Issues such as value addition and the point of imposing CENVAT came out to be the critical barriers in context to 'tax credit'.
- Separate powers to Central and State Governments to levy and collect taxes created distortions in revenue collection and distribution.
- Intellectual property rights such as copyrights, patents and intangible assets/goods or services such as software were not under exiting taxation system. A need was felt to bring these items under taxation preview.
- Although the rate of CST was slashed from 4% to 2% in two attempts for the registered dealers for the interstate sales of goods but there was no provision of setting off CST paid which ultimately created cascading effect on prices of interstate exchanged goods.
- Scams of fake VAT refunds raised question mark on the integrity of the systems of state governments and a need of fool proof system for tax credit, set off of tax paid and issue of due refunds was felt.
- Continuously expanding service sector brought higher revenues for the central government on account of service tax collection where as the state government had nothing to reap on this account.
- Cross verification of taxes paid and input credit availed was possible in partial terms only. As more than 15 different taxes (creating cascading effect) were prevailing, requiring different rules and regulation for compliance making existing taxation system as heterogeneous, complex and cumbersome.
- The continuously growing pressure from the International bodies for replacing the existing taxation system forced the government to bring this most awaited reform i.e. GST in Indian Taxation system.

Advantages of GST

Elimination of Cascading Effect: Implementation of GST has eliminated all other indirect taxes such as Central Sales Tax, VAT, Excise Duty and Service Tax except Custom duty. In case of CST and CENVAT there had not been any provision regarding setting off the paid taxes which ultimately had the cascading effect. By cascading we mean "Tax on Tax" or accumulation of taxes at every stage of production or provision of goods and services. Cascading effect causes higher cost of product for the consumers. GST has been successfully able to eliminate the same leading to savings in the consumers' pocket.

Broader Taxpayers/Assessees' Base: Under Pre GST regime, many trades such as manufacturing and sale of grey cloth was not covered under VAT. But with the GST implementation, all types of Goods and services were covered except education and healthcare leading to a broader taxpayer base.

Higher Threshold Limit for Registration: Threshold limits of annual turnover for registration under GST has been fixed as Rs.10 lacs and Rs.20 lacs in north eastern states and for rest of the India respectively whereas it was Rs.5 lacs for registration under VAT in most of the states and Rs.10 lacs for registration under service tax. Keeping this threshold limit higher led to exemption for many small traders and service providers with annual turnover less than Rs.20 lacs and Rs.10 lacs respectively.

Composition Scheme for Small Business Units: Small business units (Traders) with annual turnover ranging between Rs.20 lacs to Rs.75 lacs (now revised to Rs.1.5 crore) and between Rs.10 lac to Rs.50 lac (Service providers) can register under composition scheme to get benefit of lower tax rates and to get rid of burden of compliance. Business units with business operations confined within the state only and turnover below Rs.1.5 crore can get benefited by registering under composition scheme. However, in the North Eastern states and Himachal Pardesh, the limit of annual turnover to avail composition scheme has been fixed as Rs.75 lac.

Easy and Simple Procedures: Although a lot of procedural arrangements were already made online under VAT, but GST Council has not left anything to be carried out manually rather it turned the entire system online. It has eliminated the unnecessary harassment from the officers and staff of the excise and taxation departments. From getting registered to filing returns, lodging complaints to redressal of grievances, everything is now online giving free mind to businessman to focus on their business operations. No Doubts, the Government had to face severe criticism for complexities in filing returns etc. in initial quarters following its implementation. But government managed to remove those complexities and making the system user-friendly. In the words of Principal Chief Minister of Central Taxes Mr. AK Jyotishi "We do accept the fact that GST initially had several glitches and had created complexity in complying with it, but a sizable chunk of the hitches stands removed." (Kapoor J 2018)

Lesser compliances: As compared to pre GST regime, the compliances under GST are lesser in numbers. Under Pre-GST regime, monthly returns were to be filed for Excise, Service Tax (in case of company/LLP) and VAT (for I year only). For other assesses, returns for the service tax were filed on quarterly basis and in case of VAT, quarterly returns were required to filed for the subsequent years. For the first year under GST regime, the total number of returns to be filed was 37, (3 monthly returns in the form of GSTR1, GSTR2, GSTR 3 and 1 annual Return in the form of GSTR 9) making it too much cumbersome. But later on GST council rolled back such compliance and brought down this number to 13 returns (by reducing frequency of filing returns from monthly to quarterly) and gave a sigh of relief to business community.

Advantages to E-commerce Operators: Under Pre-GST regime, VAT laws were not universally applicable to E-Commerce Operators. Provisions of VAT Acts varied from state to state. Generally the E Commerce Operators were required to file VAT declarations mentioning the delivery vehicles number therein. But some states like Kerala, West Bengal and Rajasthan did not require them to register under VAT considering them as mere facilitators. But GST has removed all such confusing and differential treatments by clearly drafting provisions applicable to this sector leading to eliminations of confusions with regard to inter-state movement of goods through-out India.

Advantages to Logistics Industry: Under Pre-GST Regime, logistic industry, in order to avoid CST and entry taxes on the inter-state exchange of goods, used to maintain multiple warehouses across the states on their delivery route. These warehouses led to higher operating cost on account of not working to their full capacity. Reduction in restrictions of inter-state exchange of goods under GST has made the things easy going of this industry. Control over unnecessary costs by maintaining warehouses at strategic locations only has resulted in increased profits for the industry involved in transportation business.

Regulation of Unorganized Sector: Though Indian economy had been reckoned amongst fast growing and developing economies since 2008 when GDP growth rate crossed its highest rate of 8% yet a large portion of the economy was unregulated or unorganized. In the industries like construction and textiles business units working at lower levels were all unregulated reasons being manufacturing and sale of grey cloth was exempted from taxes. Consequently no books of accounts were used to be maintained by such units, if yes it was a mere formality.

But implementation of GST has brought manufacturing and sale of grey cloth under taxation preview. Now provisions have been made to regulate these industries and traders. Maintaining proper books of accounts, timely filing of returns to get input tax credit has resulted in making these businesses more transparent, well updated and managed from accounts point of view and ultimately bringing these business units under organized sector.

Increased Revenue to Government: Although the threshold limit has been raised to Rs.20 lacs, leaving many small businesses beyond its preview, still revenue for the government is expected to increase to Rs.1.10 crore crores from Rs.60 lac crores, on account of increased taxpayers base and inclusion of businesses and trades which were not taxed earlier.

Disadvantages of GST

Increased Costs of Software and Technical Know-how: Gone are the days when books of accounts were maintained manually, Under GST, Business units need to buy GST enabled software or to upgrade their existing ones for the purpose of keeping proper records of their transactions and ensure proper GST compliance. Buying a new GST enabled software or to upgrade the existing one and to train the staff to know how to work on such software led to increased costs which may not be welcomed by small business units.

Too much Compliance: For small business units who have just registered under GST may not find it easy to get accustomed to the GST compliance in form of issuing GST Invoices, maintaining digital records and in-time filing of various returns.

Increased Operational Costs: For the small and mediocre business units which are not tech-savvy enough to manage such a dynamic compliance of GST would need to hire technical professionals and experts to ensure proper compliance. This would result in higher operational and overhead cost.

Under-prepared and Hasty Implementation: The government seemed to be in too much hurry for the implementation of GST as it was apparent from their under preparation. GST council had to roll back its more than 40 announcements in the first year of its implementation. Although such roll back decisions were for the benefits of stakeholders, such kind of implementation created an environment of chaos for the business community.

GST is Paper-less Taxation: Adopting paper-less office procedures is a welcome step considering the environmental issues in the country like India but being digital and having all the compliances online can-not be everybody's cup of tea especially for small business units.

Higher Tax Burden for Small Business Enterprises: Under Pre-GST Regime small manufacturer especially in textiles industries where no tax was levied on sales of Grey cloth and excise duty was applicable only when the turnover exceeds Rs.1.5 crores. Such business units could easily sell their products at lower prices on account of no taxes. But now every business unit with turnover more than Rs.20 lacs is covered under GST leading to payment of taxes and strict compliance.

However, Business units with annual turnover upto Rs.1.5 crore can opt for the composition scheme and pay only 1% tax on turnover (for manufacturers and traders) 5% and 6% for service providers (Restaurants not serving liquor and Other Service Providers respectively) in lieu of GST and enjoy lesser compliances. But a business unit registered under composition scheme will have to work under some limitations mentioned below:

- No ITC (Input Tax Credit) could be claimed against the paid GST by a dealer registered under composition scheme.
- No Inter-state movement of goods could be possible by these dealers.
- Tax on turnover will be paid out of their own pockets (that is no tax can be collected from the customers or consumers by such dealers).

Rising Share of Loss of States: With the implementation of GST, The central government had offered the state governments to compensate them for 5 years on account of losses incurred due to the implementation of GST. Although it was a good move by the central government to let the state governments consolidate the law till the grass root levels. But Share of loss of state governments in the form of bi-monthly compensation for the months of June and July 2018 rose to as much as 3.8 times that of the months of March and April 2018 making the position of central government awkward and dissatisfied.

Declining Revenue Collection: The position of central government is getting worse as far as revenue collection is concerned. It is constantly falling short of its monthly target of Rs.1 lac crores. The GST Collections for the month of September and October 2019 came out to be Rs.91916 crores and Rs.95380 crores respectively. This amount of Revenue collection is 5% less than that of the October 2018 where it was Rs.100710 crores. Despite the festival seasons the total GST revenue collection remained below Rs.1 lac crore this year. Source: The Tribune Nov 2, 2019.

Suggestions: Here are some of the suggestions that the government may consider:

Government must formulate strategies to raise the revenue collection by taking suitable steps for deploying anti-invasion measures.

Seeking help from the state governments to identify flaws within the current system.

Bringing down the number of tax rates and slabs.

Conclusion: To resist change is a part of human nature and that's why change has never been so easy especially when a big economy like India with various sectors and huge population is in question. Although government has tried to smoothen the road to GST and has been able to accomplish it to a great extent yet a lot of is to be learn from global economies where GST has already been implemented successfully after overcoming the teething troubles. In nutshell switching over to GST from VAT and Indirect tax system will benefit Indian economy on many counts but the government is yet to get a firm grip on the tax-structure of GST. The government has a big challenge of global slowdown that has started exerting its impact on this economy too. It is quite evident from the current GST collection that has been declining for last few months. Government is expected to go with another radical change in GST and steer the same to success with gentle care.

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