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Research Paper on

GOODS AND SERVICE TAX (GST): INTRODUCTION AND IT'S CHALLANGES

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ABSTRACT

Goods and Services Tax popularly known as GST a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. This research paper highlights the positive and negative impact of the GST in the Indian Tax System.

KEYWORDS: Goods and service tax, GST in India, Impact of GST, Tax system in India, features, Indian Economy.

INTRODUCTION

GST is a comprehensive tax levy on manufacture, sale and consumption of goods and services at a national level. GST has been commonly accepted by world and more than 140 countries have acknowledged the same. Generally, the GST ranges between 15%- 20% in most of the countries. The Goods and services Tax (GST) is a vast concept, which reflects the giant tax structure by supporting and enhancing the economic growth of the country. GST is a comprehensively structured tax system, which will be levied on manufacturing, sale and consumption of the goods and services at a national level. The constitution amendment (122) in the year 2014 seeks to amend the constitution of India to facilitate the introduction of Goods and services Tax (GST) in the country. The proposed amendments will confer power in both the parliament and the state legislatures to make laws for levying GST on the supply of goods and Services on the same transaction. GST is an indirect tax in where all the stages of the production will bring to uniformity in the system. Moreover, in order to avoid the current payment of multiple taxes such as excise duty and service tax at central level and sale tax/Vat at the state level, GST would unify these taxes and create a uniform single tax market throughout the country. The present tax system generally taxes on production whereas the GST will aim to tax on final consumption.

OBJECTIVES OF THE STUDY

- ✓ To understand the concept of goods and service tax.
- ✓ To learn about shortcomings of current taxation system in India.
- ✓ To understand how GST will work in India.
- ✓ To study the features of GST
- ✓ To evaluate the advantages and challenges of GST

RESEARCH METHODOLOGY

The study focuses on extensive study of Secondary data collected from various books, National & international Journals, government reports, publications from various websites which focused on various aspects of Goods and Service tax.

WHAT IS GST?

GST is a comprehensive indirect tax on manufacture, sale and consumption of goods and services at national level. The GST is expected to replace all the indirect taxes in India. At the centre's level, GST will replace central excise duty, service duty and customs duties. At the state level GST will replace State VAT.

RUN – UP TO GST

The GST Bills have been passed by the Parliament.

Subsequent to the passage of GST Bills in the Parliament, states will take up State GST Bills for clearance in the respective state legislative assemblies.

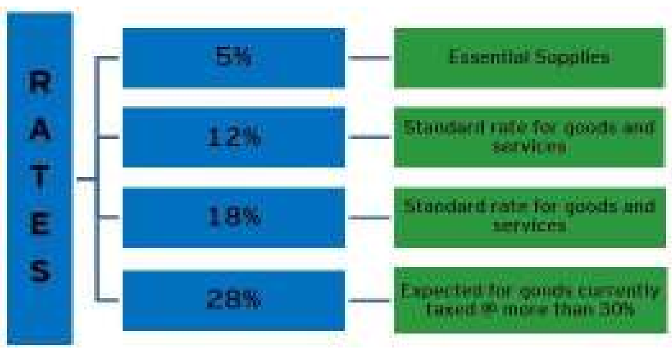
The list of exemption, classification of goods and service, and machinery provisions including valuation and other rules are yet to be notified.

As per the office order issued by the Central Board of Excise and Customs, the Government has set up ten working groups to iron out sectoral issues faced by trade and industry to ensure smooth transition to GST. Sectors include banking, telecom, IT and ITES, financial, textile, oil and gas, gems and jewellery, transport and logistics, and MSMEs.

Consensus between Central and state governments has been reached on four-tier rate structure as follows:

A well-designed GST in India is expected to simplify and rationalize the current indirect tax regime, eliminate tax cascading and put the Indian economy on high-growth trajectory. The proposed GST levy may poten- tially impact both manufacturing and services sector for the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales, and pricing. It will also stimulate the need to relook at internal organization and IT systems. With its proposed implementation from 1 July 2017 gaining intensity, it is critical for companies, which have business operations in India to understand the broad contours and framework of the proposed GST law, likely impact of the new levy on their business and start taking appropriate steps to meet its requirement and be GST ready.

FIG. 1



EXAMPLE OF GST CALCULATION

Let us assume that the GST is set at 5% Suppose that the manufacturing cost of a Product A is 100 and assuming a GST of 5% the total amount is Rs. 105 The next step of taxation would be when the Product is sold to consumers, let's say at a price of 150. So the GST will charge another 5% on just the difference of Rs. 150 and Rs. 105 i.e. only 5% on Rs. 45 which is equal to Rs. 2.25. So the final price is Rs. 150 + Rs. 2.25. Unlike the case of petrol pricing there is no tax on a tax now. This eliminates the cascading effect of taxes which is very prevalent in our economy and has been simplified to an elemental level in the example. Since the GST will be applied at every step of value creation it will be very difficult for black money owners to participate anywhere in the value chain with the GST without accounting for all other transactions.

GST would replace most indirect taxes currently in place such as:

TABLE 1

Central Taxes	State Taxes
➢ Central Excise Duty [including additional excise duties, excise duty under the Medicinal and Toilet Preparations (Excise Duties) Act, 1955] ➢ Service tax ➢ Additional Customs Duty (CVD) ➢ Special Additional Duty of Customs (SAD) ➢ Central Sales Tax (levied by the Centre and collected by the States) ➢ Central surcharges and cesses (relating to supply of goods and services)	➢ Value Added Tax ➢ Octroi and Entry Tax ➢ Purchase Tax ➢ Luxury Tax ➢ Taxes on lottery, betting & gambling ➢ State cesses and surcharges ➢ Entertainment tax (other than the tax levied by the local bodies) ➢ Central Sales Tax (levied by the Centre and collected by the States)

The GST would be levied in 3 different forms:-

TABLE 2

CGST	SGST
This is applicable in the case of Inter-State sale of goods and provision of service	In case of sale of goods Intra-state then tax will be charged as per this form.
Taxes/Duties Covered under CGST	Taxes/Duties Covered under SGST
Central Excise Duty	Entry tax (not Octroi)
Service Tax	Entertainment tax
CVD, SAD	VAT/Sales Tax
Excise duty on M&TP etc.	Luxury tax etc.

INTEGRATED GST (IGST)

The scope of IGST Model is that centre would levy IGST which would be CGST plus SGST on all inter-state transactions of taxable goods and services with appropriate provision for consignment or stock transfer of goods and services.

IGST will be combination of CGST and SGST and the same will be collected by the Centre in the Origin State.

Example

Assumption:-

(1) Rate of Excise Duty – 8%

(2) VAT Rate – 12.5%

(3) Central GST Rate – 12%

(4) State GST Rate – 8%

(5) Profit Margin – Rs. 5,000/- fixed

(6) All parties are located in one state.

TABLE 3

Particulars	Under Present Scenario		Under GST
(I) Manufacturer (D1) to Wholesaler (D2)			
Cost of Production	45000		45000
Input Tax Credit (Assuming nil)	–		–
Add : Profit Margin	5000		5000
Producers Basic Price	50000		50000
Add: Central Excise Duty @ 12%	6000		–
Add : Value Added Tax @ 12.5% on Rs. 56,000/-	7000		–
Add : Central GST @ 12%	–		6000
Add : State GST @ 8%	–		4000
Sale Price	63000		60000
(II) Wholesaler (D2) to			

Retailer (D3)			
Cost of Goods to D2	56000		50000
Available Input Tax Credit for set off	7000		10000
Add : Profit Margin	5000		5000
Total	61000		55000
Add : Value Added Tax @ 12.5%	7625		–
Add : Central GST @ 12%	–		6600
Add : State GST @ 8%	–		4400
Total Price to the Retailer	68625		66000
(III) Retailer (D3) to Final Consumer (C)			
Cost of Goods to D3	61000		55000
Input Tax Credit	7625		11000
Add : Profit Margin	5000		5000
Total 1,32,000 1,20,000	66000		60000
Add : Value Added Tax @ 12.5%	8250		–
Add : Central GST @ 12%	–		7200
Add : State GST @ 8%	–		4800
Total Price to the Consumer	74250		72000
Total Tax Payable in All Transactions	14250		12000
Verification:- VAT @12.5% [74,250 * 12.5 / 112.5] =			

8250 + 6000 (CENVAT) = 14250			
– D1 (6000 +7000)	13,000		
– D2 (7625 – 7000) –	625		
D3 (8250 – 7625)	625		
Verification:- GST @20% [72000 *20 / 120] =12000			
– D1 (6,000 + 4,000)	10,000		
– D2 (11,000 – 10,000) –	1,000		
D3 (12,000 – 11,000)	1,000		

Challenges in Implementing GST

1.Note ban has huge impact on the Goods and Services Tax (GST) a serious doubt on implementing GST by the central government`s targeted deadline of April 1, 2017..

2. The impact of the November 8 demonetization of high-value currency on their respective economies to underline that it is not the appropriate time to implement. That could have an unstable effect on the economy.

3. The Centre continues to be un compromising on the issue of jurisdiction over assesses, the states maintain.

4. Political reasons are determining the fate of GST, which is not the correct thing, because ideally GST is an economic and tax reform, and economic and tax reforms should not be dictated by political.

5. Manufactures, traders and society are eagerly waiting not only for the date of introduction of GST but also for the rate application to the products and services.

6. GST will also have impact on cash flow and working capital. Cash flow and working capital of business organizations which maintain high inventory of goods in different states will be adversely affected as they will have to pay GST at full rate on stock transfer from one state to another. Currently CST/VAT is payable on sale and not stock transfers.

7. Implementation of GST in Unorganized sectors i.e, unregistered firm will be unfavorable to government.

CONCLUSION

To conclude, there are various challenges in way of GST implementation as discussed above in paper. Implementation of GST is one of the best decisions taken by the Indian government. For the same reason, July 1 was celebrated as Financial Independence day in India when all the Members of Parliament attended the function in Parliament House. The transition to the GST regime which is accepted by 159 countries would not be easy. Confusions and complexities were expected and will happen. India, at some point, had to comply with such regime. Though the structure might not be a perfect one but once in place, such a tax structure will make India a better economy favorable for foreign investments. Until now India was a union of 29 small tax economies and 7 union territories with different levies unique to each state. It is a much accepted and appreciated regime because it does away with multiple tax rates by Centre and States.

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