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E: ISSN NO.: 2455-0817 Remarking An Analisation

GST: A Revolutionary Reform in Indian Taxation System

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Abstract

GST (Goods and Services Tax) is a crucial indirect tax reform that was pending since 2010 due to various economic and political reasons finally came into force in 2017 in India. This tax system is comprehensive in nature will cover all indirect taxes of centre and state government and will unify Indian economy as a national market. GST is important for development of the country and works on 'one nation one tax' principle. It will eradicate the long-standing cascading effect problem of the previous tax system. Dr.Vijay Kelkar**,** Chairman of the13th Finance Commission suggested a scientific, rational and modern system of taxation which comes in the face of GST. The authors present an encapsulation of the main concepts of GST explaining its features along with timeline of events and ways of implementation in India. The authors also make comparison of India with OECD countries and examine the growth in tax revenue of both after the enforcement of GST. A higher Tax-GDP ratio reflects a developed economy with low tax evasion; India had a ratio of 10% in 2014, which rose to 12% in 2017. This is a significant jump, but is still low as compared to other developed economies. The paper also elaborates on the advantages and challenges of GST and its implementation in India. The authors are of the opinion that in the long run GST can prove to be beneficial to almost all sectors of the economy including Agriculture, Manufacturing, MSME as well as Housing to name a few.

Keywords: GST, SGST, ICGT, CGST, VAT, India, OECD, ITC

Introduction

A tax is a compulsory financial charge along with some other mandatory type of levies imposed upon a taxpayer. Through tax the government fulfills the need of the funds required for various public expenditures and other developmental programmes. States and centre have used money sourced by taxation to fulfill many of their functions. These include expenditure on economic infrastructure, sanitation, public transportation, legal system, education, public safety, military, art and culture, scientific research, public work, data collection distribution, public insurance, and operations of government itself. An ability of government to increase taxes is known as its fiscal capacity. Taxes directly levied by the authorities on the individuals or corporations are called direct taxes for example corporation tax, income tax and wealth tax. They are progressive in nature. More tax is levied on a person having high income to contribute towards equity for welfare of the country. Indirect tax is that which is levied on an entity (manufacturer of goods), it is then passed on to final consumer. Indirect taxes include excise duty, service tax, customs duty and entertainment tax. VAT (Value Added Tax) an indirect tax was adapted by India to reform indirect tax system. France was the first to introduce VAT. It is imposed on value addition in every stage/process of economic activity so it replaces all domestic taxes. It is also called multipoint salestax or destination tax. It was this VAT which later evolved into GST

Review of Literature

GST begins its journey from France (lin 2008, Palil and Ibrahim).(Garg 2014) studied " Basic Concept and Features of GST in India" stated that the best logical step towards comprehensive indirect tax reforms in India since independence is GST. It creates a single and uniform market to make economy stronger. (Sanusi et al, 2015) GST's implementation increases the tax compliance among the taxpayers in a value chain. He gets input tax credit ensuring that tax is paid at the previous stage. A dual GST model is adopted in India where both centre and state will levy tax (Kumar, 2014). (Vansanthagopal, 2011) The study found the positive impacts of GST which are based on a neutral cum rational design. The balancing effect of GST will solve the conflicting interest of stakeholders.

Studies like (Kumar,2014) evaluate GST concept and criticize the current Indian taxation system, but none of the studies provide the understanding of the mechanism of collection and levying of tax under GST between state and center. Also the study provides a strong reason and advice that GST should be implemented in Indian Territory and what are the opportunities and shortcomings of GST in India. This paper deals in the domain of tax system in India. Shah (2014) shows the objectives of the proposed GST and debates the possible opportunities, challenges and threats that the GST will face, subsequently strengthening the Indian economy. Most of the countries that have adopted GST have established it as a consumption-type in nature where all capital goods purchases are from other firms testable from the sales of the firm (Shoup, 1990). Past studies have covered the objectives and the concept of the GST. However it is very significant to study the implementation and evolution of the GST in India. Ahmed. E. and Poddar. S. (2009) concluded that GST will give transparent and simple taxation system with increment in productivity and output of Indian economy.

NCAER (2009) revealed out that the introduction of GST in India would lead to benefits like rise in the efficiency of usage of energy, increment in general economic welfare, increment in the exports, increment in the GDP, increment in the return of capital, ideal returns and allocation of factors of production, bringing down general price level, etc. The writers have stated how indirect taxes have consistently been a main contributor in the Indian GDP in comparison with most countries forming part of the study. The writers further show that with the adoption of GST, the allocation of resources have become optimum, the tax could become eco- friendly. Further, the tax rate of 6-10% is recommended for comprehensive GST. It was recommended that GST should subsume them with only few exemptions. The writers also examine the effect of the recommended GST on the exports, imports, tax collections etc. Agogo Mawuli (2014) studied “Goods and Service Tax-An Appraisal” and argued that GST isn’t beneficial for countries with low-income and does not benefit broad based growth to poor countries. However if these countries target to implement GST then the rate of GST should be below 10%. Jana V. M., Sarma & V Bhaskar (2012) studied “The Road Map for Implementation of Goods and Service Tax”. He postulated the steps to be taken for implementation of GST - the comprehensive taxation system in India. The writers have emphasized on the constitutional amendment needed for the adoption of GST for Indian Economy.

Objectives of the Study

1. To understand the historical aspects of GST in India
2. To cognize basic concept, features and programme of GST
3. To examine the advantages of GST along with challenges.
4. To furnish other GST research work for understanding the information.
5. To study Tax - GDP ratio and compare it’s movement between India and OECD (Organization for Economic Co-operation and Development) after implementation of the tax reform.

Methodology and Data

The study is conceptual in nature and is supported by facts along with numerical data. Being descriptive type paper writers here collect information from secondary data sources like journal, articles, newspaper and magazines. Secondary data is intensively used for the study to meet the objectives of this research paper.

Historical Aspects

In 1986, India introduced Modified VAT on the advice of L.K. Jha committee. Beneath VAT, manufacturer has to pay tax on price of value addition of the output. However, tax paid on input is generally reimbursed as there were three rates in MOVAT - 8%, 16%, 24%. Later Government amends the MOVAT to CENVAT (Central Value Added Tax) in 2000. Uniform tax rate in CENVAT was 12%. Also the coverage of commodities increases under CENVAT. Prime Minister Vajpayee was the one to suggest the adoption of GST in year 2000. A committee consisting of the finance ministers of states was formed to work on the structure of GST. The center and the state had representatives to look for many distinctive aspects of the draft and to give reports on the topic such as threshold exemption, taxation in case of interstate trade, and taxation services. Vijay Kelkar, headed a task force and reported in 2004, the problem with the then taxation structure and recommended GST implementation to solve the problems. The medium and long term aims of the government were to bring a common taxation structure all over India and canopy the whole distribution-production nexus. As a result, 1st April 2010 was fixed to implement GST in India. In the 115th Amendment of the constitution the bill for GST implementation was placed in parliament. The bill was protested by the opposition and latter was sent for informed recheck to standing committee. The bill was debated by the committee in June 2012 and the issues were raised over clause 279B by opposition party as it gives additional powers to centre. Various Finance Ministers of different states held conference with the Indian Finance Minister and 31st December 2012 was set as a point of time to resolve the problem.

In Budget Session of 2013, the Finance Minister requested to finance ministers of state to cooperate with the government in order to establish an indirect taxation regime. In 2013, standing committee gave its report to the government and the implementation was approved by the parliament with some amendments. Arum Jaitley, the Indian Finance Minister in 2015, in his budgetary speech set the date to implement GST on 1st April 2016. However, because of differences between parties of various states in addition with some legal issues, implementation of GST was delayed by a year, and finally implemented on 1st July, 2017.

Components of GST

GST is a comprehensive, multi-state, destination based indirect tax formed on the principle of VAT. It is based upon dual model of centre and state. It is imposed on each of the state goods and services supply so it has replaced most to the domestic indirect tax. Under GST firms have to pay taxes on basis of their value of output but taxes on input are reimbursed in form of input tax credit (ITC). Centre has merged a lot of taxes into GST including central and excise duty, sale tax, excise on medical and toilet preparation, excise duty on goods of special importance and textiles, services tax, cess and surcharge on goods and services. Other state taxes are state sales tax and state VAT, luxury tax, CST purchase tax, entry, entertainment tax on advertisement taxes on lottery gambling and betting. Types of GST are CGST (Central GST), SGST (State GST), UTGST (Union Territory GST), IGST (Integrated GST).

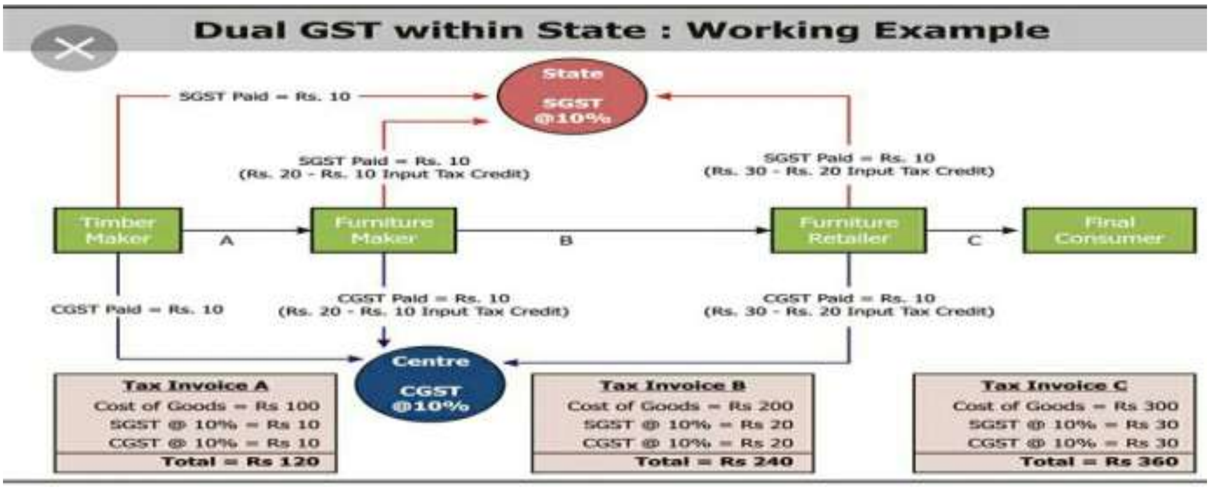
Transactions made in a one state are imposed with Central GST (CGST) by Central Government and State GST (SGST) by State governments. In case of inter-state transactions an Integrated GST (IGST) is imposed by central government. GST is a destination-based tax /consumption-based tax, so, taxes are submitted to the states where goods or services are used to fulfill needs and not to the state production. IGST takes tax collection from State Governments by enabling them from imposing the tax not owed to them indirectly from Central Government. A state deals with a single government. For transaction in UTs (union territories) UTGST is imposed on the trade.

IGST = CGST + SGST

Implementation of GST

(1) In Case of Intrastate Trade (Figure 1)

Figure 1

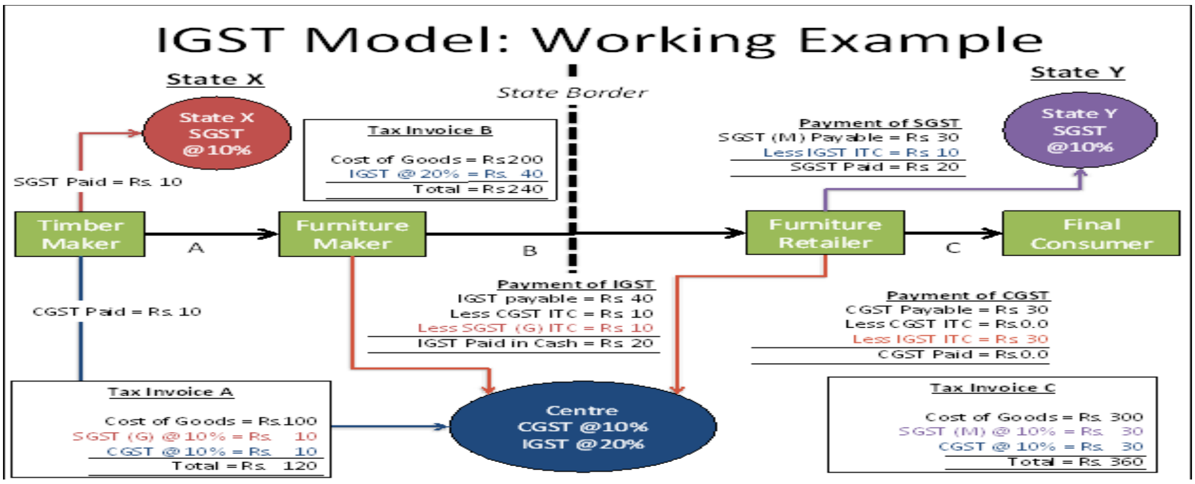


Source: http://pib.nic.in/newsite/PrintRelease.aspxrelid=148240

The timber maker sells his output to furniture maker. The tax paid by timber maker is Rs.20. The furniture maker sells his output to furniture retailer and the tax paid by furniture maker is Rs. 20 and the tax paid by furniture retailer is Rs. 20. The furniture retailer sells his output to final consumer. The total tax paid is Rs.60 and the value of final good is Rs. 360.

(2) In Case of Interstate trade (Figure 2)

Figure 2



SOURCE:https://adca.in/blog/can-accommodation-services-be-an-inter-state-supply

In state X, the timber maker sell its product A to the furniture maker at a price of Rs. 120 and pays a tax of Rs. 20 as CGST and SGST. Then the furniture maker sells the product to furniture retailer at a price of Rs. 240 and pay Rs. 40 as tax in IGST as the retailer belongs to a different state Y. Finally furniture retailer sells the product C to the final consumers at a price of Rs. 360 and pays Rs. 60 tax in CGST.

Tax-GDP Ratio

The Tax - GDP magnitude represents the ratio of tax collected compared with gross domestic product. The number of the tax payers is fiscal capacity of the government. It is a key indicator which means ability of the government to generate taxes from households and industries. For example let there be a country H which is having a tax - GDP ratio of 20% so it can be inferred the country H is getting 20% of its GDP through tax revenue collected by the citizens of the country in form of tax. This ratio indicates fiscal capacity of the Government to generate capital for its developmental activities. A high ratio concludes a highly formal economy/ or one with a sustainable population/or both. Such countries are usually developed and low ratio indicates a highly informal economy and/or high tax evasion and/or high population base. Such countries mostly happen to be underdeveloped. Inability to improve this ratio often retards growth, and exacerbates income inequality

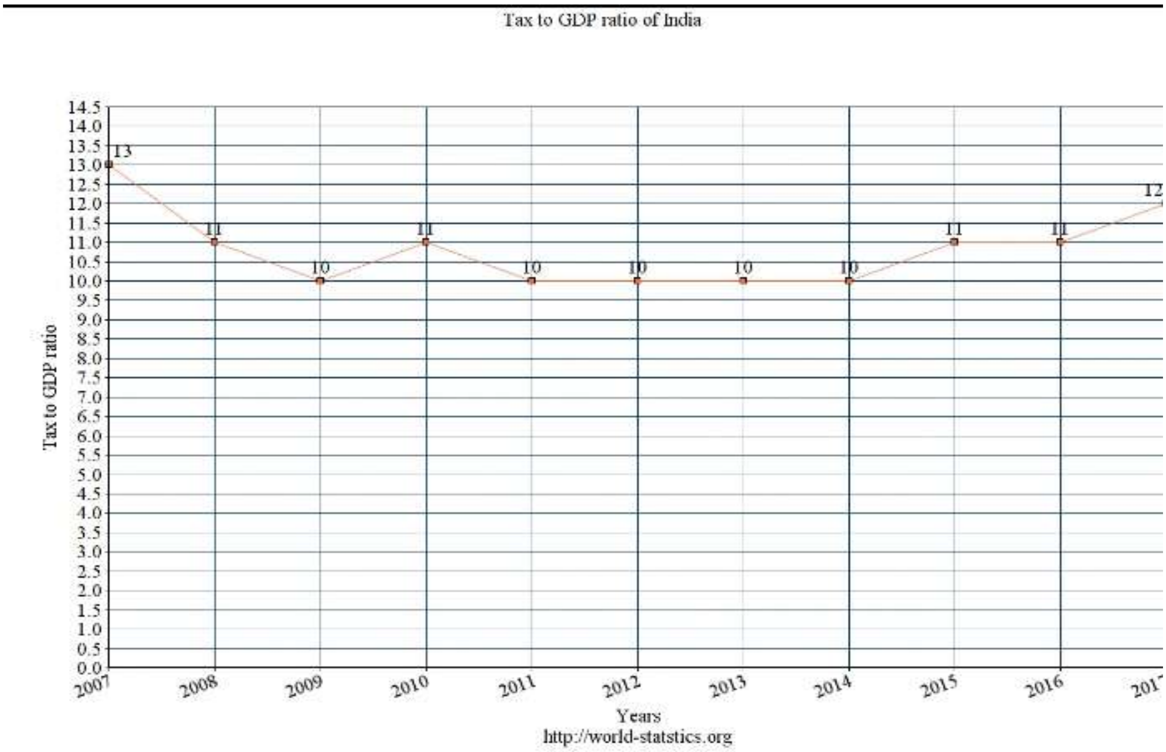
Table 1 Tax - GDP Ratio of India

Year	Tax revenue (In crore ruppees)	GDP (In crore ruppees)	Tax to GDP Rato (In percentage)
2017	19,116	162,423	12%
2016	17,0352	152,510	11%
2015	12,449	136,753	11%
2014	11,387	124,337	10%
2013	10,362	112,366	10%
2012	8,892	99,466	10%
2011	7,931	87,360	10%
2010	6,245	72,489	11%
2009	6,053	61,089	10%
2008	6,053	53,036	11%
2007	5,931	45,821	13%

The above data in the table is sourced from http://world-statistics.org

Table 1 contains the data of tax revenue collected in India from 2007 to 2018 and the next column contains the GDP of the country from 2007 to 2018 in INR and the last column contains the tax - GDP ratio from year 2007 to 2018 in percentage. Figure 3 shows a Graph that is obtained showing Tax - GDP ratio of India. The X- axis indicates the year and the Y - axis represents a Tax - GDP ratio

Figure 3 Tax - GDP Ratio of India



Source : http://world-statistics.org/

Table 2: Tax - GDP ratio of OECD

YEARS	TAX REVENUE (In Million USD)	GDP (In million USD)	TAX - GDP RATIO (In percentage)
1990	5777023.89	18087113	31.94
1993	6815929.92	20623086	33.05
1996	7990426.28	23937766	33.38
1999	9240334.24	27338267.6	33.8
2002	10415248.51	31551801.4	33.01
2005	12197811.64	36578445.7	33.35
2008	14109667.59	42847457	32.93
2011	14956401.05	45864462	32.61
2014	17167793.91	51109836.1	33.59
2015	17843501.46	52916671	33.72
2016	18602078.54	54663763	34.03

The data in the above table is sourced from http://world-statistics.org

The above table contains the years in first columns from 1990 to 2016. The next column contains the Tax revenue collected by the OECD from the year 1990 to 2016 .The third columns contains the GDP of the OECD in the respective years . The last column contains the Tax – GDP ratio of the OECD from 1990 to 2016. The graph below the table represents the years on X – axis and the tax – GDP ratio on the Y – axis.

Figure 4 Tax - GDP Ratio of OECD

Source : http://world-statistics.org/

Analysis

The Economic Survey report of 2015-16 furnishes that abysmally low tax - GDP ratio of India was a major cause for the overall widening of income inequality which leads to a less amount of opportunities for the state to invest more in regions like education and primary healthcare. The tax - GDP ratio of India is 12% per cent which is way below Tax - GDP ratio of developing nations which is 21 per cent & 34 per cent of OECD average. OECD (Organization for Economic Co-operation and Development) is an organization of 34 countries of Asia, Europe and America along with Australia and New Zealand. It is an assembly of countries terming themselves as dedicated to democracy, providing a stage to discuss domestic and international relationships, seek answers to common problems and comparing policy experiences of its members

The reasons for low tax GDP ratio of India are due to structural factors such as low per capita income that keeps tax collections low. Tax exemption for vote bank politics:-India could have gained an additional revenue Rs 31,500 crores as tax collection if the limits were kept in 2012-13 at Rs 1.5 lakh. The correction would be taxation of those rich and better off people regardless of whether their income comes from real estate, agriculture, real estate or services. Inefficient tax administration encourages tax evasion and avoidance. To increase tax revenue and also in order to improve ease of doing business index, it is necessary for the system to modernize tax administration structure, which seems marred by a heavily bureaucratized Inspector Raj system. A large amount of economic activity is created by medium and small enterprises and these enterprises have earned intense profitability growth in the last 10 years , but the government has been unable to acquire their earnings in the form of tax revenues due to a diversity of compliance issues and exemptions.

In 2014, tax - GDP ratio of India was 10% and it was kept stagnant at 10% from the year 2011 to 2014. It can be concluded from the above table - 1 that the then taxation system in 2011 to 2014 was not sufficient to increase the tax - GDP of India. But in case of OECD Tax - GDP ratio was 32.61% in 2011 and increased to 33.59% in 2014. It clearly shows that there was a better taxation system present in the world as tax - GDP ratio increased in case of OECD. In 2017, tax - GDP of India increases to 12% from 10% in 2014. So there was an increase of 20% in tax collection as a percent of GDP with introduction of GST in the Indian economy. The tax-GDP ratio of OECD was 33.5% in 2014 and it become 34.5% in 2017 so there was an increase of 2.98% of revenue collection as a percentage increase in GDP. It can be concluded that with introduction of GST as the new taxation system in India there is a sharp increase in the taxpayers' number with significant increase in revenue collection. Although Tax - GDP ratio of India is still less than OECD but this 2% increase in tax to GDP ratio has great significance for India and is equivalent to 20% increase in tax collection as percentage of GDP after introduction of GST in India. This not only boosts the GDP of the country but also leads India on the course of development after the formalization of the taxation system of the country.

Benefits and Shortcomings of GST

Benefits include (a) Easy compliance: A strong and countrywide IT system has laid foundations of the Indian GST regime. All activities of tax payers like registration, return, payment, etc. would be achievable online to the taxpayers, for easy compliance and transparency. (b) Uniformity in tax rate structures: GST will confirm that the rates of indirect tax and structures are same all over the country with, increasing surety and ease of doing business. (c) Removal of cascading: An arrangement of smooth tax-credits throughout the value-chain, and borders of states, would confirm that there is very low cascading of taxes. This would bring down latent costs of business transactions. (d) Improved competitiveness: Decrease in magnitude of transaction costs of business transactions would ultimately lead to a healthy competition for the business transactions and industrial transactions

The challenges of GST include the exclusion of various items like petroleum, liquor, electricity, real estate, education and health. These are the major problems in implementation of GST. Apart from this there are other technical problems like overload on GST network, problem of e - bills and delay in the refund of exports and input tax credit. Ambiguity and unclear rules and implementation problems are affecting on MSMEs due to increased cost of compliance. A troublesome job of multiple returns in a year is also a major problem. A firm in a year has to file 37 returns as GSTR 1, GSTR2, GSTR3, and GSTR 4 which are required to be filled quarterly in an year.

Impact of GST on Various Sectors

1. Agriculture and GST : Through a wider coverage of service and input taxes set-off, subsuming of various state and central taxes in GST and CST was phased out , it is supposed that GST would magnify the agricultural produce's price between1.18to0.61%(Thirteenth Finance Commission,2009)and this would be beneficial for Indian farmers.
2. Manufacturing Industry and GST: The situation of the current multistage taxation magnifies the manufacturing cost of most Indian products. Perfect implementation of GST can assist this sector to bring down their cost to an overall of 50 per cent. This will assist the firms to compete with the contenders of the west. In 2005, Dr. Vijay Kelkar quoted that a two per cent decrease in cost of production will increase profits almost by 20%, giving headroom to bring down the prices and profiting end-users. GST implementation would bring down the prices of manufacturing sectors between 2.53% to 1.22 % (13^{th} Finance Commission, 2009).
3. MSME and GST: The current limit of goods is Rs. 5 lakh under State VAT for bigger States and a lesser limit for Special Category States and North eastern states for registration to GST portal. As per the proposed GST, enterprises having the turnover limit above Rs. 10 lakh services and goods in new GST system are required to get registered. Again, for the sake of micro, small and medium enterprises and to prevent dual control, the states consider that limit for Central GST for products should be maintained at Rs.1.5 crore and the limit for services should be proportional (Empowered Committee of Finance Ministers, 2009). This rise in limit will adequately secure the interests of less developed and small industries and traders.
4. In the latest amendment the bill changed the threshold limit of GST from Rs. 20 lakhs to Rs. 40 lakh. annual turnover for suppliers limit for composition scheme has been raised to 1.5 crore rupees.
5. Housing and GST: Present construction value of property has become part of land's stamp duty and other input's indirect taxes. On property's registration, stamp duty is liable on the whole cost including the integrated taxes. There is no process for complete counter balance of such taxes. This causes a rise in the net cost of the property. Implementation of GST provides an inclusion of the real estate's transactions. So for a real estate builder who is registered, all taxes on inputs will be counter balanced against the constructed property payable tax. This will bring down cost of housing to some extent which will ultimately help the poor.

Conclusion

GST is the optimum step towards the country wide reforms of indirect tax in India. Since independence, indirect tax is applicable on almost all varieties of services and goods imposed on different stages of production, distribution and rendering of services and goods. GST creates a unified, single Indian indirect tax market. It will subsume all forms of over detailing taxes at present except alcohol, tobacco and petroleum products to strengthen the economy. Experts argue that GST is going to enhance tax collections and uplift economic development of India by undulating tax barriers. It will integrate India with its state through a uniform system of tax rate. Under GST, the load is divided equally between services and manufacturing sector, through a lower rate of tax by raising the tax base also by bringing down exemptions. In the new regime of tax i.e. in GST structure in every step of production/ distribution ITC (Input Tax Credit) will be allowed against the output tax liability. However, this will require a lot more analytical research to settle the conflicting interests of different stake holders and to fulfill the commitment made to them for a long term reform in Indian taxation system. GST will omit tax burden and the cascading effect on products which will lead to rise of demand and consumption of services and goods which in turn will boost the investments. A higher GDP will result in higher tax revenues (higher tax GDP ratio) which will bring down fiscal deficit to half its size and revenue deficit to zero. Besides this the GST integrates Indian economy with the world as 130 countries have already implemented GST. GST is highly beneficial for India as it is shown in comparison with OECD through tax to GDP ratio. The number of tax payer's increase due to GST, so GDP of country will increase and thus additional revenue collection can be spent on developmental programmes.

A higher Tax-GDP ratio reflects a developed economy with low tax evasion; India had a ratio of 10% in 2014, which rose to 12% in 2017. This is a significant jump, but is still low as compared to other developed economies. The authors are of the opinion that in the long run GST can prove to be beneficial to almost all sectors of the economy including Agriculture, Manufacturing, MSME as well as Housing to name a few.

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