GOODS AND SERVICE TAX IN INDIA

PROBLEMS AND PROSPECTS

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ABSTRACT: India is a federal country where Indirect Tax is levied by Federal and State Government. Value Added Tax is levied by State Governments. Every State has authority to decide the Tax rate and to control the Tax system as per their convenient. The Taxation power has been well defined in Indian Constitution. The Constitution (122nd Amendment) Bill that seeks to usher in a Goods and Services Tax (GST) regime in the country will finally be taken up for discussion in Parliament. India is a federal country which has various Tax regimes and structure, where Tax is levied by both Governments. After the implementation of GST all the Indirect Taxes will be subsumed under an umbrella, it will be a milestone in the history of Indirect Tax reform. In this paper, an attempt has been made to examine the major features of GST. This paper has also focused on the problems likely to be faced by Central and State Governments.

Keywords: Central government, goods and service tax, indirect tax, state government and value added tax.

INTRODUCTION

Value Added Tax (VAT) was proposed for the first time by Wilhelm Von Siemens in Germany 1919, as an improved turnover Tax. In 1921, Sales Tax was recommended by Prof. Thomas S. Adams of United State of America. In 1949, the Shoup mission (A group of American Tax experts, under the leadership of Carl S. Shoup) has suggested VAT for the
reconstruction of the Japanese economy. Then, France was the first country to implement VAT in 1954. At present Value Added Tax (VAT) has been implemented by more than 160 countries in the world, even our neighbor country Pakistan is also implementing GST.

However, GST is known as “General Sales Tax” in Pakistan. In one of the countries of Africa, it is known as “General Consumption Tax (GCT)”. In various countries (Table-1), all over the world, it is also known by the name of Goods and Service Tax (GST). Where in Australia, Canada, Singapore and New Zealand it is also famous as “GST”. After Brazil (1960) and Canada (1991), India will be the 3rd country which is going to introduce dual GST (levied by both Federal and State Government) structure. There is no difference between GST and VAT except a minor difference that VAT is levied on goods and GST will impose on goods plus services

**DIRECT TAX:**

Direct Tax is a kind of duty, which is charged directly on the Taxpayer and paid directly to the Government by the Taxpayer. It cannot be shifted from one person (Taxpayer) to another. There are several Direct Taxes levied in India are as follows

1. Income Tax
2. Corporation Tax
3. Property Tax
4. Estate Tax
5. Gift Tax

**INDIRECT TAX:**

An Indirect Tax is one which is imposed on commodity (goods) or services that is paid by the consumer. Indirect Tax is basically collected from intermediary sources such as company, dealer and retailer while the mediator collects Tax from the end user (consumer). It can be shifted from one person to another and is not levied directly. There are some Indirect Taxes are as follows

1. Custom Duty
2. Central Excise Duty
3. Service Tax
4. VAT
5. Entertainment Tax
6. Octroi

OBJECTIVE OF THE STUDY:

To identify the problems and prospects of GST in India.

RESEARCH METHODOLOGY

The paper is based on secondary sources of data, which have been obtained from various GST implementation discussion papers, published article in journals, web articles (internet sources), past studies and newspaper etc. With the help of these secondary sources, attempt has been made to find the obstacles coming on the way of GST and looking for future opportunities of it in India.

REVIEW OF LITERATURE

M. Govinda Rao, (2009) has found that GST is not a new Tax. It is only the further improvement over the existing consumption Tax system at the Central and States level. At present Federal and State Government levy Service Tax and VAT respectively and GST will be subsumed of all Indirect Tax. While some of the important shortcomings of the proposed GST are summarized in the following- Reforming the consumption Tax system, List of exempted goods and services. Management of the Tax system, what will be the rate of Tax.

Amaresh Bagchi (2006) has observed a unified Tax on goods and services that discusses about the several difficulties in introducing single national VAT. This will levy and administered only by the federal Government. Otherwise, Tax at the Central level is neither practicable nor desirable for India. Another alternative option is that Government could implement dual GST where Tax rate would be uniform all over India.

GST IN INDIA IN INDIA

GST was first time introduced on 28th February 2006 in the Budget Speech of the year 2006-07 by Finance Minister Sh. P. Chidambaram. A message was left by the Finance Minister in the Union Budget 2007-08 that GST will be introduced with effect from 1st April 2010. Central and State Governments will be work together to prepare a roadmap for the introduction of GST in India. They planned to introduce GST or “replacing the previous VAT and Service Tax” on 1st April 2010, but some of the States were not ready to implement the
GST. After that on 1st April 2012, again Government was going to introduce GST, but due to some management and infrastructure problems it was not introduced.

Finance Minister Arun Jaitley introduced the 122nd Constitution Amendment Bill in Parliament and intends to implement GST reform by 1st April 2016. The GST structure will present a transparent system which will be helpful to reduce the burden of cascading effect and it will also improve the Tax compliances and Tax collection. GST will prove the uniformity of Taxes in all over the country.

IMPORTANT FEATURES OF GST

“First time the discussion on GST in India” exhibits in detail the basic features of its structure and implementation aspect. Of course, some of the details are already known to us and a few others will help to clarify some details of the proposed design. Some of the important features of the proposed GST reform are:

- This dual GST model would be implemented through a certain number of legal provisions. The GST shall have two mechanisms: one levied by the Centre (CGST), and the other levied by the States (SGST).
- In the First Discussion Paper on GST released by Empowered Committee has given its recommendations that the Central Taxes and State Government Taxes should be subsumed under the GST.
CENTRAL GOVERNMENT TAX (CGST)

These Taxes will subsume under Central Goods and Service Tax (CGST).

1. Service Tax
2. Central Excise Duty
3. Additional Excise Duty
4. Excise Duty under Medicinal and Toiletries preparation Act
5. Additional customs duty (Countervailing Duty)
6. Surcharge
7. Cess

STATE GOVERNMENT TAX (SGST)

The Taxes will come under the State Goods and Service Tax (SGST).

1. VAT/ Sales Tax
2. Entertainment Tax
3. Luxury Tax
4. Taxes on lotteries
5. Betting and gambling
6. Entry Tax
7. Octroi

PROBLEMS WITH GST

Amendment in the Constitution

Implementation of GST is necessary to perform the Constitutional Amendments for State to levy Service Tax as well as Central Government has the power to enhance revenue from dealers and retailers transaction. Central and State Government is accepted that the substitute is desirable. It is not a big problem, but the system will take some time for amendment of the constitution. After the amendment in Constitution, a separate entry 92C was incorporated in the Union List to empower it to levy the Tax on services. Numbers of modified measures have been undertaken by both the Governments before implementing the GST and these should be initiated as soon as possible.

Political issue

Presently VAT is levied by 29 States and 7 Union Territories of India. Every State has authority to decide the Tax rate and to control the Tax system as per their convenient. If it is handed over to the Central Government, they will control the Tax rate along with the Tax
system. It is a matter of great concern, but the question arises why all the States hand over their right to the Union Government.

**Administration issue**

GST is subsumed of various types Indirect Taxes where revenue will be divided between the Central and State Government. But there may occur various problems in this case regarding the matter of authority- who will control the system? Who will decide the Tax rate and how will the administration work? On the basis of the discussion of the first paper we can suppose that there will be separate Tax management both for the Centre and each State level. The administration of the State GST will be under the control of State while Central GST will be under the Central Government.

**PROSPECTS OF GST**

**India and GST**

India has federal structure. Union Government has planned for a dual GST model where Central Goods and Services Tax (CGST) and a State Goods and Services Tax (SGST) will be levied on the Taxable value of goods plus services.

**Benefit to exports**

The cost of manufactured goods and services will decrease with the comprehensive reduction of input cost of major Central and State Taxes in GST. This will create a competitive environment of goods and services of India, in the international market.

**Benefit to industry**

The GST is expected to be complimentary to the user of the supply chain of goods and services which include from beginning to ending the whole industry, Agriculture and trade via a comprehensive Tax regime. This is expected to generate the higher amount of revenue for the industry as well as business prospects as Tax burden goes down.

**Conclusion**

In the light of the above discussion, the authors have recommended that GST system is more beneficial for the Government as well as stakeholders from the management
and analysis point of view. We believe that CGST must have the authority to collecting Tax and SGST should be given the power to take the decision regarding Tax rate. In case, if there is any change in the Tax rate it should be decided through democratic consent so that there are minimum chances of political interference. GST is also helpful in avoiding Tax evasion, improved Tax collection and compliances. It reduces the cost of goods and services to some extent and creates a supportive environment for the facilitation of international trade, thereby helping in revenue generation leading to the increase in the GDP of the country.

References

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