

GOODS AND SERVICES TAX IN INDIA: AN OPPORTUNITIES AND CHALLENGES

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Introduction

India is a federal country where Tax is levied by Federal and State Government. The Taxation power has been well defined in Indian Constitution. At present, there are 37 Governments along with (a Central Government, 29 State Governments and 7 Union territories who levy Tax at the different-different Tax rate on the same product. Where Central Government collects Direct Tax as well as Indirect Taxes and State Government collects only Indirect Taxes.

India's decade long wait for its landmark tax reform ended on 1st July with the implementation of GST-'Goods and Services Tax. The GST will mark revolutionary change in the taxation system with the "OneNation, One Tax" motto. It will integrate and simplify the process of indirect taxation and will bring in many benefits compared to the present tax systems such as easy process of availing input credit, single point tax, elimination of cascading tax system and simpler taxation. If the implementation of GST is smooth, it has the potential to accelerate economic growth by 2%. It will especially give impetus to the manufacturing sector and make it more competitive. It will also boost up the exports and create more employment opportunities.

To make "One Nation, One Tax" a reality, the government is training its officers on taxation of services. GSTN, the technology backbone for the reform, has a massive IT mandate of securely handling mammoth volumes of data that GST will generate. The legislation cuts across all enterprises, requiring them to relook at their business models, business policies, and procedures. GST offers tax and finance professionals multiple opportunities to grow their client list and clearly establish their role in ensuring seamless migration of various businesses to become GST compliant. Firms are scrambling to get the right teams in place to benefit from the new tax regime as GST is expected to bring in financial savings, which will accrue on account of a well-planned GST system.

Opportunities

To reduces the corruption

GST reform is one of the major problems that India is overwhelmed with. We cannot expect anything substantial unless there exists a political will to root it out. This will be a step towards corruption free Indian Revenue Service.

To eliminates the multiplicity of taxation

The great advantages that a taxpayer can expect from GST are elimination of multiplicity of taxation. The reduction in the number of taxation applicable in a chain of transaction will help to clean up the current mess that is brought by existing indirect tax laws.

To boost up the 'Make in India' campaign

GST would improve demand and competitiveness of 'Make in India' products. The GST tax structure will reduce the burden of indirect tax both for the producer of goods and the ultimate end user except in some cases, as the producer or manufacturer of goods will get the advantage of input tax credits (ITC) and the consumer will have to bear only the indirect tax charged by the last retailer or dealer in the supply chain. This will lead to expansion of the market for the MSMEs.

To widen the tax base

The major gains from the GST reform are that it is expected to widen the tax base, reduce distortions in the economy through a more comprehensive input tax credit, enhance export competitiveness by comprehensively relieving domestic consumption taxes on exports, ensure greater regional equity by getting rid of inter-state sales tax and having a destination-based tax, and help create a seamless national market by removing inter-state trade barriers.

Reduction of tax burden on new business:

As per the provisions of the present tax structure, businesses with turnover of more than rupees 5 lakhs need to pay a VAT registration fee. The government has increased this exemption limit under GST to twenty five

lakhs. This will be beneficial to around 60% of the small traders.

To develop harmonization

India's constitutional provision does not allow both the Central and State Governments to tax both goods and services in an inclusive manner. The government has therefore recognized the need for harmonization of goods and services tax so that both can be levied in a comprehensive and rational manner in a new taxation regime – namely, Goods and Services Tax (GST).

To reducing cost for taxpayers

Goods and services tax reform will significantly reduce the compliance cost for taxpayers by simplifying and harmonizing the tax structure and by making the administration uniform across states.

Better logistics and quick delivery of services:

As per the provisions of the current tax system, entry tax is to be paid on interstate manufacture and sale of goods. Under GST, no entry tax will be charged for goods manufactured or sold in any part of India.

To minimize average tax burdens

Under GST mechanism, the cost of tax that consumers have to bear will be certain, and GST would reduce the average tax burdens on the consumers.

To encourage industry and Exports

Goods and services tax 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.

Challenges

Challenge like interest of the states

Goods and services tax involves not only considerable work but also formidable challenges. Unlike in many other countries where GST is a centralized tax in India it is livable by both central and state governments. This implies that both the structure and administration of the levy will have to emerge after detailed negotiations and bargaining between the centers, 29 states and the two Union Territories with legislature.

Lack of skilled resources and need for re-skilling challenge

With GST rates and their complexities only recently becoming a part of our policy framework, skilled staffs with updated GST subject knowledge and training are not easily available. This has placed an additional work load on personnel across industries, and created an urgent need for additional GST-skilled resources to ensure swift implementation.

Lack of Clarity in rules and regulation of GST

The different provisions of GST are still ambiguous. Categorization of goods and services in various cases is still unclear. Provisions for anti-profiteering, as well as the now-deferred e-way bill, which tracks consignments across states, are unclear.

The new tax regime requires transporters to generate e-way bills on the GST portals which include incurring substantial costs to install radio frequency identification devices (RFIDs)..

Legislative restrictions

India's federal character of the constitution is essentially autonomy of the states to raise their own revenue and constitution provided the power to the union and state government to collect tax and levy tax as per the concurrent, union and states list. It is really restricting the government from bringing any change in this structure.

Challenge in higher interest or finance Cost

IGST will be applicable on interstate branch transfers and stock transfers. This will increase the working capital requirements of the businesses which have interstate transactions due to blockage of funds. This in turn will increase the interest burden which would ultimately will have impact on the pricing policies.

Preparedness of tax system

The different businesses are yet to map the accounting software and IT systems in line with the new tax provisions, to create GST invoices, and extract required reports. Tax and accounting professionals jointly need to ensure that their clients' current systems are compatible with their GST service provider (GSP).

With GST demanding compliance, only days after guidelines were issued in their entirety, India Inc is rushed for time to modify the entire IT framework. Seamless implementation will require six million micro, small, and medium enterprises (MSMEs) to adapt their invoicing

approaches for which they do not have adequate IT support and systems.

Challenge liketax threshold

The threshold limit for turnover above which GST would believe will be one area which would have to be strictly looked at. First of all, the threshold limit should not be so low together small scale traders and service providers. It also increases the allocation of government resources for such a petty amount of revenue which may be much more costly than the amount of revenue collected.

Reverse charge mechanism challenge

The provisions of the Goods and Services Tax (GST) bill, it has been laid down that if a registered person buys goods from an unregistered trader/dealer then as per the provisions of reverse charge, the tax is to be paid by the registered person. This will increase the working capital requirements of the registered persons. Therefore, registered businesses will prefer to deal only with the registered businesses. This will have a negative impact on the unregistered traders/dealers and will hamper their growth and development. They will be compelled to register themselves or shut down their businesses.

Time limit for goods sent on sale or return basis

Under the current tax laws, there is no time limit for the return of goods sent on sale or return basis. But with implementation of GST, this time limit is limited only for a period of six months.

Greater negotiation is necessary

There are a number of issues on which negotiations are necessary to reach a consensus between the centre and the states and among the states themselves. The first issue relates to the inclusion of taxes within the ambit of GST

Conclusion

Goods and Services Tax (GST) is clearly a long term blueprint. It would lead to increase in output, employment opportunities and economic development and progress of the nation. However, in the initial phase of its implementation it is likely to increase the administrative difficulties and the compliance cost. The shift from the traditional tax regime to GST is considered as a 'behavioral change' more than a tax change because its successful implementation depends to a great extent on how quickly businesses adapt to the digital format of taxation. However, considering both the aspects of fiscal federalism as well as State revenue implications, a single rate is not feasible in the country of India. There are vertical inequalities of State Governments relative to the Central Government and horizontal inequality among State Governments in India, a single rate of GST is highly complicated to implement in the absence of compensation for States in India. Finally, it is said that government have both the side of the coin like opportunity and challenge. But, it is not easy for the government to take opportunities, without facing challenges.

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