

A Study on GST (Goods and Service Tax): The Way Forward

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Abstract

The much-awaited biggest indirect tax reform GST (Goods and service Tax) has been introduced in India since July 1, 2017 as an 122nd amendment of the constitution converting India into a unified market of 1.3 billion citizens. GST was implemented on the notion of “**One Nation, One Market, One Tax**”. This single indirect tax has subsumed many indirect taxes of centre and states such as VAT, central excise duty, central sales tax (CST), service tax etc. besides dismantling all the inter-state trade barriers with respect to trade. But as was much touted at the time of its launch that this tax will be one of the biggest game changer that will help businessman and manufacturer by eliminating multiple taxes, cascading effects of taxes, reducing tax evasion and corruption, bringing more transparency in collection of taxes hence increasing government revenue by widening tax base and GDP of the country. But nothing proved to be true and even after nine months of its implementation and various changes made by the government, manufactures and businessmen are still in mess juggling with GSTN portal, monthly returns, various slabs of GST etc. likewise government also facing problem with decreasing revenue, no check on corruption and new methods of tax evasion etc. Hence this paper is a modest attempt to find out why GST failed in fulfilling its objectives and what should be the way forward for GST so that it may prove a boon to the country rather than hampering the growth of the country.

Keywords: Indirect Taxes, GST, VAT, CST

Need of the Study

This study will help to examine the problems and challenges of GST after its implementation and will suggest the measures for government and policy makers for effective implementation of GST.

Introduction

GST (Goods and Service Tax) implemented in India on July 1, 2017 is an indirect tax subsuming 17 central and state taxes including service tax, VAT, octroi, duties and other charges across the country to create a common market in the \$ 2.6 trillion economy (HT April 20, 2018) with 1.3 billion people. GST is a comprehensive, multi-state, destination-based tax that is levied on manufacture, sale and consumption of goods and services applicable throughout India (except J & K) to replace many indirect taxes levied by central and state governments. It is levied at the point where the goods are originating. Worldwide 160 countries have implemented GST up till now. Most of the countries have a unified GST system while India has adopted a dual GST system like Canada where tax is imposed by both central and state governments. The idea of GST in India was first proposed by Shri Atal Bihari Vajpayee in 1999 and a committee was set up under the leadership of Shri Asim Das Gupta the

then finance minister of West Bengal to design a GST model. It was supposed to be implemented from 1st April 2010 but due to political issues and conflicting interests it could not come into force. Finally, it was passed by Lok Sabha in May 2016 as 122 constitutional amendment bill and was launched at midnight on July 1, 2017 by the president of India in the joint session of parliament. Experts enlisted the benefits of GST as

- It would introduce the concept of “**One Nation, One Market, One Tax**”.
- It would absorb all the indirect taxes of central and state governments into one thus eliminating cascading effects of taxes.
- It would rationalize the tax structure and simplify the compliance procedure.
- Automation of compliance procedures would reduce errors and increase efficiency.
- It would widen the tax regime by covering all the sectors including the unorganised one thus widening the tax base and increasing the tax revenue for the government.
- It would provide credit for taxes paid by the producer earlier in the goods and services exchange chain so producer will get encouragement to buy raw materials from different registered dealers and would bring more and more vendors and suppliers under purview of taxation.
- Because of efficiency gains and prevention of leakages the overall tax burden on most commodities will come down that will help to reduce the prices of goods and services and in turn will help consumers and companies to increase their sales.
- It would reduce the custom duties so Indian exports will be competitive in the world market.
- Youth will get employment as GST trained experts.

Literature Review

Since the research area chosen for the study being ‘taxation’, the researcher also reviewed the reports of various committees of taxes appointed by government of India time to time.

L.K.Jha committee (1976) set up by government of India on July 19, 1976 to review indirect taxation system in India did a comprehensive study on incidence of indirect taxes, the problem of multiplicity rates etc. and recommended a set of four excise rates, the introduction of Value Added Tax (VAT) at the manufacturing stage called MODVAT to tackle the problem of cascading effects of excise taxation.

Raja J. Chelliah committee (1991) appointed by government of India on August 29, 1991 to examine the structure of direct and indirect taxes. The committee submitted its reports in three instalments: an interim report and final reports in two parts. These reports contained recommendations for restructuring and rationalization of personal income tax, corporate income tax, wealth tax, excise duties, import tariffs, tax administration and enforcement machinery.

Kelkar committee (2002) appointed by government of India in July 2002 to recommend measures for simplification and rationalization of direct and indirect taxes. Consequently, two task forces were set up. The committee suggested various measures under direct taxes like expansion of tax payer services both qualitatively and quantitatively. Easy access to tax payers through internet and e-mail and extension of facilities such as tele-filing and tele-refunds and in case of indirect taxes the task force recommended custom clearance to be based on trust and to be uniformly applied to all importers and exporters, multiplicity of levies to be reduced, implementation of service tax on comprehensive basis.

Empowered Committee on Goods and Service Tax (2007) was appointed to prepare a roadmap for introduction of GST in India. A joint work group was also set up on May 10, 2007 who after intensive internal discussions and interaction with experts and representatives of commerce and industry submitted its report to empowered committee in November 2007.

Shagunbakshi (2018) (Bakshi, 2018) found impact of GST on various sectors like FMCG, IT, food

Industry, infrastructure sector etc. and concluded that government should make a consensus regarding various issues related to implementation of GST.

Sima Kumari and Shubham Arora (2018)(Arora, 2018) did SWOT analysis of GST and found out that if implemented properly by improving GSTN portal it can reduce black money and bring more revenues to the government.

Objectives of the Study

- To understand the conceptuality of GST
- To study the features of GST in India
- To find out the weaknesses in the present GST model of India
- To suggest the measures to correct these weaknesses

Research Methodology

This research is exploratory in nature. It is based on secondary data taken from journals, articles, newspapers, internet, research papers and feedback from manufacturers and businessmen. Keeping in view the objectives of the study the research design is descriptive and analytical in nature.

Limitations of the Study

Due to time and manpower constraint limited number of manufacturers and businessmen have been talked about. If number could have been increased more problems would have been identified.

Table :1 Model of GST Applied in India

Indirect Taxes	GST	Goods/Services produced and consumed in same state	Goods/ Services Produced & Consumed in different States (Inter-state)	Goods/ Services Exported	Goods/ Services Imported
Excise Duty	CGST	CGST rate + SGST rate Levied	Integrated GST (IGST)	GST Not Applicable	CGST rate + SGST rate Levied
Service Tax					
Custom Duties					
Central Sales Tax					
State Sales Tax	SGST				
Entertainment Tax					
State VAT					
Professional Tax					

Under GST goods and Services are taxed at 0%, 5%, 12%, 18%, 28%. There is a special rate of 0.25% on rough precious and semi-precious stones and 3% on gold. In addition, a cess of 15% over and above GST applies on certain luxury and demerit goods. (See Table 2)

Table :2 GST Slabs

0%	5%	12%	18%	28%	28%+cess
Food Grains, egg, Milk, fruits and vegetables, newspaper, curd, salt	Coal, Sugar, spices, Tea and Coffee, Drugs and Medicine, Edible Oil, Indian Sweets	Tooth powder, sports goods, Juices-Fruit, Milk Beverages, Fertilizers	Capital Goods, Industrial Intermediaries, electronic toys, clocks, LPG stoves	Air-conditioners, Refrigerators, aerated drinks, perfumes, after-shave lotions	Small Cars (1-3% cess) Luxury Cars (15% cess)

Key Features of GST in India

GST is the greatest indirect tax reform that has been taken place in India after independence changing the entire indirect tax system, tax structure, tax

incidence, tax computation, input credit, report procedure etc. The purpose is to curb tax terrorism and inspector Raj. India has adopted dual system of GST

CGST- Central Goods and Services Tax charged by central government of India

SGST- State Goods and Services Tax charged by state government of India

IGST- Integrated Goods and Services Tax. The tax amount is divided in some ratio between the two states

GST is governed by GST council and its chairman is finance minister of India Shri Arun Kumar Jaitley. Finance ministers of all states are other members of it. The 2/3rd representatives in the council are from states and 1/3 from union. Decisions are taken by 2/3rd majority of votes. It was also made mandatory that central government will compensate these states for loss of revenue for a period of 5 years or more on the recommendations of GST council.

GST works through GSTN network. GSTN (Goods and Service Network) has been set up by government as a private company under erstwhile section 25 of companies Act 1956. GSTN provides three first end services namely registration, payment and refund to tax payers. Government has already appointed M/S Infosys as a managed service provider (MSP) at a total project cost of around Rs. 1380 crores for a period of 5 years.

Problems in the Present GST Model

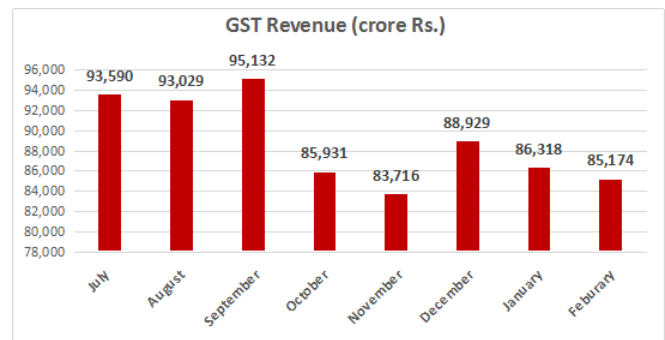
GST was expected to provide the much-needed stimulant for economic growth in India that was hampered due to demonetization by transforming the existing basis of indirect taxation towards free flow of goods and services within the country and also eliminating the cascading effects of taxes in view of the important role that India has to play in the world economy in the years to come. The expectations from GST were high not only in India but also abroad. But they did not prove true and even after 9 months of its implementation GST has not been able to deliver the desired results. Instead businessmen, manufacturers and traders are facing numerous problems everyday juggling with GSTN portal, filing of returns, different slabs etc. According to World Bank Biannual India Development Report (HT March 16, 2018) "GST implemented by Modi government is one of the most complex with the second highest tax rate in the world among a sample of 115 countries which have a similar indirect tax system". However, the main problems with the current GST are

- India has highest number of GST slabs in the world namely 0%,5%,12%,18%,28%, 28%+cess. Further gold is taxed at 3%, precious stones at 0.25% while alcohol, petroleum products, stamp duties on real estate and electricity duty are excluded from GST and continue to be taxed by state governments at state specific rates. As many as 49 countries around the world have a single slab of GST, while 28 countries use two slabs, only five countries including India use four non-zero slabs. Thus, India has among the highest number of different GST slabs in the world.
- GST lacks clarity on discontinuation of local taxes so many states evolved their own taxes. For example, Tamil Nadu devolved an entertainment tax to local governments in order to impose over and above a 28% GST. Likewise, Maharashtra, to preserve revenue collections, increased motor vehicle tax to compensate for losses due to GST.
- Many GST forms are not available on GSTN portal.(Sharma Harikishan March 18, 2018) For GST total 69 forms should be uploaded but the design of many forms is still not ready. For Example For filing returns there should be 10 forms but GSTR-7 and GSTR-8 is still not ready. Likewise, GST PMT-3 form related to register and leisure is still not developed. Same is the case for the form appeal and advance ruling.
- IT structure of GST is very complex and difficult to understand for a simple businessman so always he/she is roaming all around tax professionals CA and advocates who have increased their rates of filing GST returns so high that not only cost is increasing but for the whole month businessman energy is being wasted to file returns.
- IT network of GST (GSTN) has various problems due to which not only businessmen are facing much trouble but government also has to face awkward situation, criticism and protests. This is why GST council has to postpone the dates of filing of returns many times.
- Even the tax officials don't know anything how to help taxpayers in case of confusion or dilemma. Though excise and sales tax have been merged but both officials don't know their role under GST.

- Exporters are not getting refund so they are facing working capital problem even the production of manufacturer is suffering due to it. (DJ April 15, 2018) Due to technological problem in GSTN portal their data is not matching with GSTN portal so exporters are unable to get their IGST refund on time due to which they are facing many problems.
- Tax evasion has increased under GST after government postponed anti-evasion measures such as e-way bill, matching of invoices of buyers and sellers and a reverse charge mechanism wherein the large registered buyers have to pay tax on behalf of small unregistered sellers. Under the composition scheme businessmen are evading the tax. Mint reported that the directorate general of GST intelligence had unearthed evasion amounting to Rs. 440crores in a Pan-India operation. (Nair, 2018) In E-way bill people are under invoicing of bills as E-way bill is not applicable on goods less than 50000 Rs. and 150 items are out of its purview.
- There are reports of an increased administrative tax compliance burden on firms and a locking-up of working capital due to slow tax refund processing.
- Though inter-state E-way bill has been implemented from April 1, 2018 but it is not without fault. According to Confederation of All India Traders (DJ April 24, 2018) businessmen are facing much problems **First**, it is not generating easily. **Second** problem is of HSN code because many businessmen don't know about it. **Third** problem is about tax rate about which many businessmen are still in dilemma. **Fourth** problem is of GST portal because on it some information gets uploaded while some not. **Fifth** problem is of complexity of returns.

According to the first advance estimates released by CSO economic growth of the country has been decelerated from 9.1% (March 2016) to 6.5% in 2017-18 (Mishra, 2018) due to the teething trouble associated with implementation of GST, delays in refunds to exporters, has led to a temporary dip in manufacturing. Not only growth but government revenue from GST has also fall down. (DJ March 28, 2018) see figure 1

Figure :1



Source: Finance Ministry

This shows that plan of GST implementation was brought without vision and without doing any pilot study due to which it created so many problems for businessmen, manufacturers, exporters and proved to be a case of criticism and protest to government.

Suggestions

Procedure of filing GST return should be made simple and number of GST forms should be less or a simple one-page form should be there to file the returns.

Controversial issues of GST should be resolved so that businessmen may not be confused about tax rate, GST form etc. and may file their return very easily.

Automatic tax calculation procedure should be there in IT software of GSTN so that taxpayer may not confuse about amount of tax.

GST slabs should be reduced to one or two.

Petroleum products should be brought under GST as this time petrol and diesel rate is all time high of Rs. 74 and Rs. 68 respectively that is increasing inflation and unrest among public.

No state should be allowed to levy local/state tax on GST goods on the name of revenue loss as central government is already compensating the loss for first 5 years.

All GST forms should be designed and uploaded on GSTN portal as soon as possible and should be designed so easy to fill that businessmen may fill them at their own and should not require to roam about tax professionals to file their GST.

IT structure of GST should be made strong and simple and all technical faults should be removed. There should be IT technical team 24 hours to support the taxpayers if any problem arises during the GST filing process. If server hangs or portal creates problem no penalty should be charged from taxpayers.

Youth should be trained as GST professionals for filing returns and their rates of filing GST returns should be fixed and nominal just like income tax.

Exporters should be provided refunds immediately and automatically so that their production process may not hamper due to lack of working capital.

For checking tax evasion immediate steps should be taken and those taxpayers should be rewarded and encouraged who are paying their tax honestly.

Problems of E-way bill should be rectified immediately. For checking tax evasion E-way bill should be compulsory for each and every product (No exempted products). To check under invoicing there should be no limit of Rs. 50000. Likewise, there should be no discrimination whether the goods are transported through motorised vehicle or non-motorised vehicle.

Conclusion

Change is definitely never easy. Whenever a new thing is implemented many problems arise that is what is happening with implementation of GST in such a vast country of 1.3 billion people with lots of diversity. The government should take care of all problems that are coming in proper implementation of GST and should be sensitized towards the problems of taxpayers. It is encouraging that government is taking steps towards solving the problems of businessmen, manufacturers, exporters etc. It has appointed a five-member ministerial group under the chairmanship of deputy CM of Bihar Shri Sushil Modi who will give its report in April 2018. Though the final report will come by June 15, 2018. In between Government has refunded 12,700 crore Rs. as refund to exporters. (DJ April 2, 2018) and 17,616 crore Rs. refund has been sanctioned. (DJ Apr 3, 2018). To solve problem of GST portal government has made IT complaint redressal Mechanism (DJ Apr 5, 2018) to give relief to those taxpayers who were not able to file their return due to problem in IT structure of GSTN Portal.

Once the teething trouble of GST are over and it is implemented successfully, the country will experience the advantages of having a unified tax system, easy input credits and reduced compliance and will become a single market where goods can move freely and India will take a step forward towards ease of doing business.

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