

## GST—The Game Changer

*D S Malik*



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**T**he genesis of the introduction of Goods and Services tax (GST) in the country was laid down in the historic Budget Speech of 28<sup>th</sup> February 2006, wherein the then Finance Minister laid down 1<sup>st</sup> April, 2010 as the date for the introduction of GST in the country. Thereafter, there has been a constant endeavor for the introduction of the GST in the country whose culmination has been the introduction of the Constitution (122<sup>nd</sup> Amendment) Bill in December, 2014.

### Why GST ?

A common refrain in the popular discussions is what is the need for the introduction of GST? To answer that question, it is important to understand the present indirect tax structure in our country. Presently, the Central Government levies tax on manufacture (Central Excise duty), provision of services (Service Tax), interstate sale of goods (CST levied by the Centre but collected and appropriated by the States) and the State Governments levy tax on retail sales (VAT), entry of goods in the State (Entry Tax), Luxury Tax, Purchase Tax, etc. It is clearly visible that there are multiplicities of taxes which are being levied on the same supply chain.

There is cascading of taxes, as taxes levied by the Central Government are not available as setoff against the taxes

being levied by the State governments. Even certain taxes levied by State Governments are not allowed as set off for payment of other taxes being levied by them. Further, a variety of VAT laws in the country with disparate tax rates and dissimilar tax practices, divides the country into separate economic spheres. Creation of tariff and non-tariff barriers such as Octroi, entry Tax, Check posts etc. hinder the free flow of trade throughout the country. Besides that, the large number of taxes creates high compliance cost for the taxpayers in the form of number of returns, payments etc.

### What is GST ?

All the indirect taxes mentioned earlier are proposed to be subsumed in a single tax called the Goods and Services Tax (GST) which will be levied on supply of goods or services or both at each stage of supply chain starting from manufacture or import and till the last retail level. So basically any tax that is presently being levied by the Central or State Government on the supply of goods or services is going to be converged into GST.

GST is proposed to be a dual levy where the Central Government will levy and collect Central GST (CGST) and the State will levy and collect State GST (SGST) on intra-state supply of goods or services. The Centre will also levy and collect Integrated GST

The author is Additional Director General, Press Information Bureau of Ministry of Information and Broadcasting looking after Media Relations and Communication of Ministry of Finance, Corporate Affairs and Competition Commission of India.



(IGST) on inter-state supply of goods or services. Thus GST is a unifier that is going to integrate various taxes being levied by the Centre and the State at present and provide a platform for forging an economic union of the country.

This tax reform will lead to creation of a single national market, common tax base and common tax laws for the Centre and States. GST is an example of how federal system of Government as laid down in our Constitution can actually be implemented in reality on ground in our country.

Another very significant feature of GST will be that input tax credit will be available at every stage of supply for the tax paid at the earlier stage of supply. This feature would mitigate cascading or double taxation in a major way. This tax reform will be supported by extensive use of Information Technology [through Goods and Services Tax Network (GSTN)], which will lead to greater transparency in tax burden, accountability of the tax administrations of the Centre and the States and also improve compliance levels at reduced cost of compliance for taxpayers. Studies indicate that introduction of GST would instantly spur economic growth and can potentially lead to additional GDP growth in the range of 1 per cent to 2 per cent.

#### Advantages of GST:

Advantages for the Government:

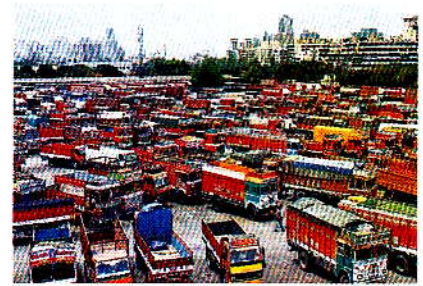
- Will help to create a unified common national market for India, giving a boost to foreign investment and "Make in India" campaign;
- Will mitigate cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;
- Harmonization of laws, procedures and rates of tax between Centre and States and across States;
- Improved environment for compliance as all returns are to be filed online, input credits to be verified online, encouraging more

paper trail of transactions at each level of supply chain;

- Similar uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-state sales;
- Common procedures for registration of taxpayers, refund of taxes, uniform formats of tax return, common tax base, common system of classification of goods and services will lend greater certainty to the taxation system;
- Greater use of IT will reduce human interface between the taxpayer and the tax administration, which will go a long way in reducing corruption;
- It will boost export and manufacturing activity, generate more employment and thus increase GDP with gainful employment leading to substantive economic growth;
- Ultimately it will help in poverty eradication by generating more employment and more financial resources.

#### Advantages to Trade and Industry:

- Simpler tax regime with fewer exemptions;
- Increased ease of doing business;
- Reduction in multiplicity of taxes that are at present governing our indirect tax system leading to simplification and uniformity;
- Elimination of double taxation on certain sectors like works contract, software, hospitality sector;
- Will mitigate cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply;
- Reduction in compliance costs - No multiple record keeping for a variety of taxes - so lesser investment of resources and manpower in maintaining records;
- More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international



market and give boost to Indian Exports;

- Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc;
- Average tax burden on supply of goods or services is expected to come down which would lead to more consumption, which in turn means more production thereby helping in the growth of the industries manufacturing in India.

#### Advantages to Consumers:

- Final price of goods is expected to be transparent due to seamless flow of input tax credit between the manufacturer, retailer and service supplier;
- Reduction in prices of commodities and goods in long run due to reduction in cascading impact of taxation;
- Relatively large segment of small retailers will be either exempted from tax or will suffer very low tax rates under a compounding scheme - purchases from such entities will cost less for the consumers;
- Poverty eradication by generating more employment and more financial resources.

#### Advantages to States:

- Expansion of the tax base as they will be able to tax the entire supply chain from manufacturing to retail;
- Power to tax services, which was hitherto with the Central Government only, will boost revenue and give States access to the fastest growing sector of the economy;



- GST being destination based consumption tax will favour consuming States;
- Improve the overall investment climate in the country which will naturally benefit the development in the States;
- Largely uniform SGST and IGST rates will reduce the incentive for evasion by eliminating rate arbitrage between neighbouring States and that between intra and inter-state sales;
- Improved Compliance levels of the tax payers will contribute greatly in improving the revenue collection of the States.

#### Current Status :

- In order to implement this historic Indirect Tax reform, Constitutional (122<sup>nd</sup> Amendment) Bill (CAB for short) was introduced in the Parliament and passed by Rajya Sabha on 03<sup>rd</sup> August, 2016 and Lok Sabha on 08<sup>th</sup> August, 2016.
- The CAB was passed by more than 15 states and thereafter Hon'ble President gave assent to "The Constitution (One Hundred And First Amendment) Act, 2016" on 8<sup>th</sup> of September, 2016. Since then the GST Council and been notified bringing into existence the Constitutional body to decide issues relating to GST.
- On September 16, 2016, the Government of India issued notifications bringing into effect all the sections of CAB setting firmly into motion the rolling-out of GST. This notification sets-out an outer limit of time of one year, that is till 15-9-2017 for bringing into effect GST.

#### GST Council Meetings :

The highest decision making body under CAB, the GST Council has met thirteen times since its constitution and some important decisions taken in the different GST Council Meetings are:-

- Rules for conduct of business in GST Council;
- Timetable for implementation of GST;

- The threshold limit for exemption from levy of GST would be Rs. 20 lakhs for the States except for the Special Category States, as enumerated in Article 279A of the Constitution, for which it will be Rs 10 Lakhs);
- The threshold for availing the Composition scheme would be Rs. 50 lakhs. Service providers and some others would be kept out of the Composition Scheme;
- To compensate States for 5 years for loss of revenue due to implementation of GST, the base year for the revenue of the State would be 2015-16 and a fixed growth rate of 14 per cent will be applied to it;
- Approval of the Draft GST Rules on registration, payment, return, refund and invoice, debit/credit Notes with the understanding that minor changes may be permitted with the approval of the Chairperson, if required, based on suitable suggestions from the stakeholders or from the Law Department;
- All entities exempted from payment of indirect tax under any existing tax incentive scheme would pay tax in the GST regime and the decision to continue with any incentive scheme shall be with the concerned State or Central government. In case, the State or Central Government decides to continue with any existing exemption/incentive scheme; it will be administered by way of a reimbursement mechanism.
- Adoption of four slabs tax rate structure of 5 per cent, 12 per cent, 18 per cent and 28 per cent. In addition, there would be a category of exempt goods and further a cess would be levied on certain goods such as luxury cars, aerated drinks, pan masala and tobacco products, over and above the rate of 28 per cent for payment of compensation to the states.
- The Central Goods and Services Tax (CGST) Bill 2017, Integrated Goods and Services Tax (IGST) Bill 2017, Union Territories

(without legislature) Goods and Services Tax (UTs GST) Bill 2017 and Goods and Services Tax (Compensation to States) Bill 2017 have been passed by the Lok Sabha on 29<sup>th</sup> March, 2017 and by the Rajya Sabha on 06<sup>th</sup> April, 2017. The following draft GST rules have been approved by the GST Council on 31<sup>st</sup> March, 2017 and have been now placed in the public domain:

- Registration Rules
  - Return Rules
  - Invoice Rules
  - Payment Rules
  - Refund Rules
  - Input Tax Credit Rules
  - Valuation (Determination of the Value of Supply of Goods and Services) Rules
  - Transitional Rules
  - Composition Rules
- The implementation of GST has the following challenges:
- Challenging time frame of rolling-out GST by July 1, 2017;
  - Passage of draft laws by the State Legislatures;
  - Infrastructure and Technology up-gradation of tax system particularly of the States;
  - Up-gradation of IT systems of trade and industry;

Now the main thrust would be to create a nation-wide awareness among the stakeholders and public at large to remove their doubts/confusion and misgivings, if any, about the GST and its likely impact on businesses, prices especially of essential commodities and employment opportunities etc. Small businessmen and traders have to be fully briefed about the GST and related Legislations along with the procedure to file their tax returns on line and how to claim input tax credit wherever applicable among others. The Government is now fully committed and hopeful to roll-out this major Indirect Tax reform with effect from July 1, 2017. □

(E-mail: [dprfinance@gmail.com](mailto:dprfinance@gmail.com))