

GST IN INDIA: PROBLEMS AND PROSPECTS

-Vaibhav Chaudhary, Assistant Professor, Chaudhary Ranbir Singh University, Jind (Haryana)

ABSTRACT

The Goods and Services Tax (GST), implemented in India on July 1, 2017, has been regarded as the most significant milestone in the history of taxation since Independence. The GST was planned to be implemented in April 2010, but was postponed due to political issues and conflict of interests of the stakeholders. The main purpose of the GST is to simplify the taxation system by subsuming all sorts of indirect taxes like, Central Excise, VAT, Sales Tax, and Service tax and implement 'one nation one tax' system in India. The objective of the paper is to examine the working of the GST and its prospects in India. As GST has been recently implemented only recently, the full impact of the system is still awaited. The research is exploratory in nature, and uses secondary sources of data, including journals, newspapers, websites of various relevant authorities, etc. The conclusion being positive in tone suggest several ways through which the GST can be reformed.

INTRODUCTIONS

Recently, the Union Budget for the year 2020-2021, was tabled in Parliament by Finance Minister Smt. Nirmala Sitharaman. She made the announcement that a simplified return format would be introduced from April 2020.

She also said that the implementation of the GST had resulted in gains of Rs. 1 lakh crore to consumers, and also helped in removing the 'Inspector Raj.'

With the government focussing so much on the GST, it becomes imperative to examine the system. Therefore, before jumping into technicalities of the GST, we need to thoroughly examine the system.

The GST is a tax on goods and services under which every person is liable to pay tax on his output and is entitled to get input tax credit (ITC) on the tax paid on its inputs (therefore a tax on value addition only) and ultimately the final consumer shall bear the entire burden.

MODEL OF GST

1. The GST has three components: Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST), and Integrated Goods and Services Tax (IGST). Excise Duty (levied on manufacturing), Service Tax (on Services), CST (on inter-state sale), Custom Duty (on imports) will fall under the CGST. VAT, Entertainment Tax, Luxury Tax, Octroi and Entertainment Tax, will be subsumed under the SGST.

2. The GST would be applicable to the transactions of all goods and services except for the exempted ones. Three items have been

kept outside the purview of the GST. These are: alcoholic products, petroleum products, and electricity. There are many goods and services that are to be taxed in the same as these were being taxed before the implementation of the GST.

3. Both the CGST and the SGST are applicable to intra-state transactions. In cases where the location of the supplier and place of supply are different, and also where the supply of goods and services is made to and by 'special economic zones', the transaction is assumed to be inter-state. In an inter-state transaction, a seller has to collect the IGST from the buyer.

WORKING OF GST

In order to appraise the working of the GST, we must know the supply chain. The supply chain is the process in which a product passes through many hands. For example, the product is first manufactured by a manufacturer, then it is supplied to a distributor, then to the retailer, and then finally to the consumer. The GST is levied on the commodity when it is passed from one stage to the other. Let us see how the working of the GST differs from that of the previous taxation system.

1. Manufacturer: Under the previous system of taxation, manufacturer had to pay two taxes before passing the product to the distributor. These were VAT and Excise Duty, which were levied on the cost of the product. However, under the GST, he has to pay only one tax, and also the tax has been somewhat reduced because there are fewer taxes now. For example, if the Excise Duty is 10% and VAT is 5%, then if the cost of the product is 100, the total cost of the product will be 115. Now under the GST, if

the tax is 10% (let's say), then the total cost of production becomes 110.

2. Distributor: In the previous taxation regime, the distributor received the product for Rs 115, to which he added his own profit margin (let's say 20%), plus the Service Tax (15%), and VAT (5%). These calculations are shown below:

Cost of Good Received	115
Profit@20%	+23
VAT@5%	+7
Service Tax@15%	+22
Total Price	Rs. 167

In the GST, the mechanism is much simpler. Profit margins are added to the cost of the product received from the manufacturer (Rs 110+ Rs 22), and then the GST @10% is levied, as shown below:

Cost of Goods Received:	110
Profit Margin @ 20%:	+22
GST @ 10%:	+13
Total Price	Rs 145

Thus, there is a benefit of Rs. 22 (Rs 167- Rs 145) to the retailer under the new system, which ultimately gets passed on to the consumer.

3. Retailer: Let's examine how the earlier system differed from the present one in transferring the benefits to the final consumer. The retailer receives the product for Rs 167, to which he adds his profit margin (@20%), VAT (@10%), and Service Tax (@ 15%):

Cost of Goods Received:	167
Profit Margin @ 20%:	+33
VAT @ 5%:	+10
Service Tax@ 15%:	+32
Total Price	Rs 242

Under the GST regime, again the calculation becomes much simpler.

Cost of Goods Received:	145
Profit Margin @ 20%:	+29
GST @ 10%:	+32
Total Price	Rs 191

Comparison of the final prices, under the previous taxation system and the GST, shows the benefits received by consumers. In the above example, the consumer derives a benefit of Rs 51 (Rs 242- Rs 191), due to the introduction of the GST. Thus, not only manufacturers, distributors, and retailers are benefitted, but also the final consumers, because of the introduction of the GST (Nayyar and Singh, 2018).

Another example, is shown in Figure 1. Here the thing that needs to be noted is the INPUT TAX CREDIT SYSTEM, which is the backbone of the GST. The Input Tax Credit helps to avoid the cascading effects of the taxation system.

In the given figure, the wholesaler receives the goods for Rs 11,800. These prices already include the GST which was levied when the goods were passed from manufacturer to wholesaler. Now if the GST is levied on Rs. 11,800 when goods are passed from wholesaler to the retailer, it will be a tax on tax. To avoid this, the GST will be levied only on the value added, i.e., on Rs. 10,000(11800-1800). The wholesaler adds value of Rs 5,000, making the basic price equal to Rs. 15,000. This price does not include the GST, and now the GST will be levied on this Rs. 15,000. Since value addition is cumbersome to calculate for each element of the supply chain, the input tax credit system helps. The wholesaler thus gets an input tax credit of Rs. 1800. We can see the magnificence of this system, which has solved a multitude of problems, including the understandability of the tax system.

Figure 1: Illustration Of GST Vs Current Taxation System

(INR)	Current System	GST
Manufacturer		
Cost of goods	0	0
Add: Value addition	10,000	10,000
Basic price	10,000	10,000
Add: CENVAT@ 12.5%	1,250	0
Add: GST@ 18%	0	1,800
Total price	11,250	11,800
Wholesaler/distributor		
Cost of goods	11,250	11,800
Less: Input GST credit	0	(1,800)
Add: VAT@ 12.5%	2,031	0
Add: GST@ 18%	0	0
Total price	18,281	17,700

Retailer		
Cost of goods	18,281	17,700
Less: Input VAT credit	(2,031)	0
Less: Input GST credit	0	(2,700)
Add: Value addition	2000	2000
Basic price	18,250	17,000
Add: VAT@ 12.5%	2,281	0
Add: GST@ 18%	0	3060
Total price paid by consumer	20,531	20,060
Total value added	17,000	17,000
Total taxes paid	3531	3060
Effective tax rate (% of value addition)	21	18
Source: ICICI Bank Research		

BENEFITS OF GST

After examining the working of the GST, and seeing the different tax rates, it is important to discuss the benefits. Without looking at the benefits, we can never be sure of the implementation of the GST as a sound step.

The GST brings benefits to all stake-holders, viz, industries, government and citizens. It is expected to lower the cost of goods and services, making them more competitive globally. The concept of 'one nation one tax', inherent in the GST, will make markets unified, and will pave the way for an integrated economy. The GST has been designed in such a manner that it will allow for cross utilisation of input tax credit at each stage, thereby avoiding the cascading effect of taxation. The GST will give impetus to the 'Make in India' programme floated by the government in 2014, as the goods will become more competitive in the national and international markets (Amutha,2018). Imports from abroad will be charged with the IGST, and

since the IGST is almost equal to the CGST plus the SGST, there will be parity between local goods and the imported ones. Under the GST, exports will get a boost. The principle of taxing only the cost of production will be followed. Exporters are being granted with a 90% refund within 7 days of their acknowledgement of their application. The GST is expected to increase the tax base, leading to an increase in the revenue collected by the government of India. The GST is also expected to increase the Indian GDP from 1.5% to 2%. The GST is largely technology driven. The interface of the tax payer with the authorities is through a common portal (GSTN). All processes, be it of applying for registration, filing of returns, payment of taxes, filing of refund claims, etc, will be done digitally through the portal of GSTN. This will encourage a culture of compliance, making the system transparent and accountable. Average tax burden on trade and industry is likely to come down, boosting consumption (S.K.

Singh,2016). Evaluating the benefits in more detail will give us more clarification as to why the GST is hailed as the most major tax reform since independence.

1. Facilitating The Inter-State Trade In Goods

For India to become a common market, it was necessary to remove inter-state barriers. With the removal of inter-state check posts, the long overhaul of cargos would come to an end. A study commissioned by the Ministry of Transport and Highways found that a truck typically spent around one-fifth of its total travel time between two states at border check-posts before GST was implemented. Post GST, trucks are covering more distance. They used to cover only 225 km per day, whereas now they cover distance of around 325 km per day, which is an increase of 44%. The introduction of e-way bills will further facilitate the movement of goods inter and intra state. However, the success of it will depend upon the online platform, which must have the capacity of dealing with peak-load situations. After the GST rollout, India successfully jumped 19 positions (35th from 54th) in the Logistics Performance Index. Logistics is primarily an unorganised sector activity in India. GST is likely to nudge unorganised logistics companies to move into the formal sector.

2. Shift From Informal To Formal Sector

In the past, the government had little data on small manufacturers and consumption because the excise duty was levied at the stage of manufacturing, while state had little data on local bodies outside their borders. Under the GST, there will be seamless flow of data to both the centre and the states, making direct

and indirect tax collection more effective. Transactions which were not recorded earlier, are now recorded easily with the help of online platform created by GST(GSTN). Registrations of indirect-tax payers have almost doubled in a year from 6.2 million in the pre-GST days.

3. Improving Public Finance

Increasing compliance and encouraging formalisation have helped in improving the public finance. The tax-to-GDP ratio had touched 11.35% in FY18, the highest since FY09. The revenue collection is expected to increase further during FY19 due to improved tax collection (Moid, 2018).

4. Benefit To Fmcg And Real Estate

The Fast-Moving Consumer Goods (FMCG) sector posted a growth of 13.5% in the FY18. Eight of the top ten companies registered a double-digit growth after a period of five years. While many factors would have contributed to their growth, GST is undoubtedly one of them. The simplified tax structure has allowed FMCG Companies to launch different varieties of the product, within the realm of the GST slabs, as notified by the GST Council (Nayyar and Singh, 2018).

During the last six months, there has been revision and reduction of several tax rates to control inflation and rationalise the slabs. As a result, many items used as inputs in the food processing industry are exempted from taxation. The highest tax rate of 28% is restricted to only few items, and demerit goods like pan masala, cigars, and cigarettes.

Real Estate has also gained from the implementation of the GST. Constructors are now able to avail the input tax credit on the previously paid taxes on purchase of

construction material and services. The initial months of the GST implementation were full of confusion. On the one side, suppliers were unsure of the input tax credits that they would get, and on the other side, customers were unsure of the benefits. Later things became clear, and developers started passing 4-6% discount to the customers.

LIMITATIONS OF GST

The very law that makes GST as the most successful reform, also bestows upon it certain limitations or challenges that we will have to address in future. Some of the limitations are discussed below.

1. Increased Costs Due To Software Purchase

Businesses have to either update their existing software, or purchase a new one, which is compliant to the GST. Either way, the cost will increase, if firms want to keep doing business. Also, it requires training of employees for filing of return, or any other procedure, which may increase the total cost for the firm. However, the requirement of such a software (GSTN) was essential, and its benefits outweighs the costs.

2. Not A 'One Nation One Tax' In Spirit

An ideal GST would have been where only one law were framed for the entire country, and only one governing body would have regulated the GST. However, this is not the case, as different GST laws are there for different states. For example, Gujrat GST is different from Maharashtra GST. If a firm has business operation in both the states, then the firm will have to register in both the states, and follow the GST procedures in both the states separately.

Some experts claim, that it is just an old wine in an old bottle with a new label.

However, such claims are futile, seeing the length and breadth of the country, it would have been very difficult to apply a single law for the entire nation, in which case it would not have accommodated the spirit of diversity.

3. Hurried Implementation Of Law

The GST has been the largest taxation reform since independence. It is noticed that the government has somehow hurried its implementation. Many business houses and tax experts warned the government of its implementation and suggested 1st of October for implementation of the GST. However, the government without paying any heed went ahead with its implementation. Resultantly, there was confusion among industry, trade, professionals, and even government officials. Even today, there are some aspects of the GST which lack clarity. As a damage control mechanism every time a new notice, circular, or notification, is released regarding the law, it only adds to the confusion. This is the biggest disadvantage of the GST, and could have been avoided if more patience were shown in its implementation.

4. Blocking Of Working Capital

Working capital is the fuel of every business. It is the money available for company's day-to-day operations, and it also reflects the company's financial viability and health. Exporters have faced the burnt, with refunds being blocked so much that post 200 days of implementation of the GST, exporters are not able to claim refunds smoothly. Same is the position for traders, who are not able to claim refunds due to the non-availability of various forms.

CONCLUSIONS

While the implementation of the GST has been a historical event, it still needs some improvements. People have to become more aware of its working, and the government must effectively spend more money on its administration. The input credit system must also improve in case of exports, and exporters must get seamless flow of credits. More GST centres must be set-up as to assure better services

to people regarding the GST. Also, it seems that the tax slabs can be rationalised. Necessities can be taxed at 5%, while another suitable tax rate can be chosen for other commodities. This will make the GST simple, and move it towards the 'one-nation one-tax' principle. Finally, the GST is for the benefit of India, and it is expected to raise the Indian GDP growth from 1% to 2%. Though mix results have been obtained in case of other countries (after the implementation of GST), we hope for better results in India.

References

1. Amutha, D. (2018). Economic consequences of GST in India. SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.3098357>
2. Banik, S. & Das, A. (2017). GST in India: impact and challenges. *IOSR Journal of Business and Management*, 19(12), 7-10.
3. Mishra, N. (2018) Impact of GST on Indian Economy. *International Journal of Basic and Applied Research*. 2(1), 80-92.
4. Moid, S. (2018). Challenges and opportunities in implementation of GST Bill for insurance sector in India. *Advances in Economics and Business*, 6(4), 256-268.
5. Nayyar, A., & Singh, I. (2018). A comprehensive analysis of Goods and Services Tax (GST) in India. *Indian Journal of Finance*, 12(2), 57-68.
6. Sankar R. (2017). GST: Impact and implications on various industries in Indian Economy. *Journal of Indian Banking and Commerce*, 22(2), 120-132.
7. Singh, S.K. (2016). Making Goods and Services Tax operational: the challenges ahead. *NICE Journal of Business*, 11(1), 1-10.