Gst : A Boon Or Bane To Indian Economy

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INTRODUCTION

Multiplicity of taxes, some levied by the State, others by the Centre and yet a few levied by the Centre and shared with State created much confusion and chaos in doing business in India. It also hampered the economic progress of the nation. A regime of multiple taxation and even double taxation was a fertile breeding ground for corruption and discouraged higher investments by the private sector. The Goods and Services Tax Bill or GST Bill, officially known as The Constitution (One Hundred and Twenty-Second Amendment) Bill, 2014, is a legislation which aims to end this confusion and chaos by introducing a national Value Added Tax implemented in India from July 1 2017 called the "Goods and Services Tax". This tax is a comprehensive indirect tax on manufacture, sale and consumption of goods and services throughout India, which has replaced various taxes levied by the Central and State governments. Goods and services tax is levied and collected at each stage of sale or purchase of goods or services based on the input tax credit method. This method has allowed GST-registered businesses to claim tax credit to the value of GST they pay on purchase of goods or services as part of their normal commercial activity. Taxable goods and services are not distinguished from one another and are taxed at a single rate in a supply chain till the goods or services reach the consumer. Administrative responsibility generally rests with a single authority to levy tax on goods and services.[2] Exports are zero-rated and imports are to be levied upon the same taxes as domestic goods and services adhering to the destination principle.[3]

India's current Finance Minister, ArunJaitley believes that this change in taxation will lead to the economic integration of the country and is therefore considered as the biggest tax reform in the Indian history. Earl[4]ier the indirect tax system in India was very complicated with overlapping taxes levied by both Centre and the State separately. However, today after the rolling out of GST one can expect a climate of tax compliance.[5]

HISTORY OF GST BILL

The genesis of the GST lay in the Finance Bill of 1986-87 when the then Finance Minister Mr. VishwanathPratap Singh introduced Modified Value Added Tax (MODVAT), which set the stage for Value Added Tax (VAT), a first step towards GST. [6]

In the year 2000, Vajpayee Government set up an Empowered Committee of the Finance Ministers of 9 states headed by AsimDasgupta (Finance Minister of the Government of West Bengal) to design a model for GST.[7]

The Kelkar Task Force on implementation of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 pointed out that although the indirect tax policy in India has been steadily progressing in the direction of the Value Added Tax (VAT) principle since 1986, the existing system of taxation of goods and services still suffered from many problems. It suggested a comprehensive Goods and Services Tax (GST) based on the VAT principle. GST system was targeted to be a simple, transparent and efficient system of indirect taxation that has been adopted by over 130 countries around the world. This involved taxation of goods and services in an integrated manner as the blurring of line of demarcation between goods and services has made separate taxation of goods and services untenable.[8]

An announcement was made by the then Union Finance Minister, P. Chidambaram during the central budget of 2006-07 on 28th February 2006 that GST would be introduced from April 1, 2010 and that the Empowered Committee of State Finance Ministers, on his request, would work with the Central Government to prepare a road map for introduction of GST in India.[9]

The Empowered Committee (EC) of State Finance Ministers released its First Discussion Paper (FDP) on the GST in November, 2009. It spelt out the features of the proposed GST and has formed the basis for discussion between the Centre and the States so far. The 13th Finance Commission released its report on the GST the same year.

A dual GST module for the country was proposed by the EC. This dual GST model was accepted by Centre. Under this model GST will have two components viz. the Central GST (CGST) to be levied and collected by the Centre and the State GST (SGST) to be levied and collected by the respective States. Central Excise duty, Additional Excise duty, Service Tax, and Additional duty of customs (equivalent to excise), State VAT, entertainment tax, taxes on lotteries, betting and gambling and entry tax (not levied by local bodies) would be subsumed within GST.[10] Further, a single tax called the Integrated Goods & Service Tax (IGST) was also proposed when one State sells to another State. This tax would go entirely to the Centre which will share it with the Seller State. The whole mechanism was proposed to be handled by the GSTN i.e. the Goods & Services Tax Network- a common and shared IT infrastructure network for the Centre, State and the Stakeholders. [11]

In order to take the GST related work further, a Joint Working Group consisting of officers from Central as well as State Government was constituted. This was further trifurcated into three Sub-Working Groups to work separately on draft legislations required for GST, process/ forms to be followed in GST regime and IT infrastructure development needed for smooth functioning of proposed GST. In addition, an Empowered Group for development of IT Systems required for Goods and Services Tax regime has been set up under the chairmanship of Dr. NandanNilekani.[12]

Based on the recommendations of the Empowered Committee (EC), the Constitution (115th Amendment) Bill, 2011 was introduced in Parliament in 2011 with certain modifications and additions to enable the levy of GST. However, the Empowered Committee rejected Centre's proposal to include alcohol, real estate and petroleum products under GST in 2013. By the time the Bill was tabled in the House by the Standing Committee on Finance and discussion could be held for its passage, the 15thLokSabha was dissolved. As a result the Bill lapsed. Subsequently, in December 2014, the Constitution (122nd Amendment) Bill, 2014 was introduced in LokSabha. The Bill was passed by LokSabha in May 2015.[13] However, when it was introduced in the RajyaSabha, the Upper House recommended two amendments to the Bill- (i) To do away with the 1% inter-state surcharge and (ii) To make provisions for center to provide compensation for revenue losses to state for five years. After referring the case to a Select Committee of the RajyaSabha and hectic discussion and parleys with all stakeholders, the Government accepted these two amendments. This paved the way for passage of the Constitution (122nd Amendment) Bill in RajyaSabha on 3rd August 2016.[14]Over the next 15 to 20 days, 18 states ratified the GST Bill and then President Pranab Mukherjee gave his assent to the bill.

A 21-members select committee was formed to look into the proposed GST laws. State and Union Territory GST laws were passed by all the states and Union Territories of India paving the way for smooth rollout of the tax from 1 July 2017. However there was to be no GST on the sale and purchase of securities as it continues to be governed by Securities Transaction Tax

(STT).

FEATURES OF GOODS AND SERVICE TAX (GST ACT), 2017:

Goods and Service Tax is one of the biggest tax reforms in the history of Indian taxation system.Salient features of G.S.T Act, 2017 are as follows:

1. The whole tax collection mechanism has been divided into two parts [i.e. a dual GST model has been adopted] , firstly tax that is to be levied by centre called C.G.S.T, secondly the tax levied by the states called S.G.S.T.[15]
2. A state wise single registration system for filing the return, paying the taxes and making other compliance requirement, many of these requirements will be fulfilled online which will leave very less space of human intervention in the system, and therefore will be helpful in curbing the problem of corruption.[16]
3. Now, a taxpayer has to file a single return on state wise basis to mention all his supplies whether made in the state, or outside the state, or even outside the country, and to file all applicable taxes on those supplies that areC.G.S.T, S.G.S.T, and I.G.S.T.
4. There is also a provision of input tax credit system which would help in ending the cascading effect of the taxes.
5. This Act makes registration compulsoryonly for those businessesthat havean annual turnover of more thanRs 20 Lakhs; furtherwhose turnover is below Rs20 Lakhsmay voluntary register if he/she wants to avail the benefit of I.T.C. However for most of the North-Eastern states this limit is set at Rs. 10 Lakhs.
6. A business entity with annual turnover of Rs. 50 Lakhs may also avail the benefit of the composition scheme. But, it is available in only limited sectors.
7. To prevent lock-in of capital of exporter provision has been made to refund 90% of the amount within 7 days of request of refund on provisional basis.
8. An agriculturist will be not required to make registration under this act unless he does so voluntarily.
9. To provide certainty in the matter of payment of taxation an advance ruling authority has been made under the present provision.[17]
10. Exhaustive provision for appellate mechanism has also been made under this act.[18]
11. In order to mitigate the financial hardship which may be suffered by the taxpayers in the initial stages of the incorporation of the law, the commissioner has been empowered to allow the payment of taxes in instalments.
12. There is also a provision of providing compensation to the state for any loss of revenue due to the implementation of the G.S.T; the period of compensation will be of five years.[19]

4. ADVANTAGES AND DISADVANTAGES OF THE CURRENT GOODS AND SERVICES ACT

Goods and Services tax Act of 2017has been a milestone in the Indian taxation system which will affect economy of India in both positive as well as negative manner.

4.1 ADVANTAGES OF GST

1. The registration and filling of taxes under G.S.T act will be done online which would reduce the human intervention which shall further help in curbing the problem of corruption.
2. The G.S.T Act provides for an integrated taxation system. The previous taxation system created a lot of hardship for many of the businesses, but in the present act they will have to pay only one tax for every import or export. As a result there will be ease in doing business.[20]

3. With the help of input tax credit system, the prices of the goods will come down and it will definitely increase the demand. There is nothing more important for India than increase in demand which will further help in growth of business and industries.
4. There are many provisions in the G.S.T Act of 2017 which will provide for a proper redressal of the issues arising in payment of taxes such as exhaustive provision for appellate mechanism and to provide certainty in matter of taxation.Apart from that there is also a provision for an advance ruling authority.[21]

4.2 DISADVANTAGES IN EXISTING GST:

The defects in the present G.S.T Act are as follow:

1. It was said that the G.S.T will merge all the taxes together. But in the current act it seems somewhat hard to come by as each state hastheir own law and there is a separate act for center. Further there is an integrated G.S.T for both center and state. Thus there are still a series of taxes which a producer has to pay.
2. The present G.S.T act is very much unsuitable to a heterogeneous country like India where center and state collect taxes separately. However according to the provisions of the present act center will collect tax on the part of state as well. The main problem which arises now that the states like Maharashtra and Bihar will get same amount of money from center although their needs and demands are different.[22]

5. ROAD AHEAD:

The GST will herald an era of one nation, one market and one tax. It will help in demolishing the inter-state barriers leading to efficiency gains and an enhanced level of economic activity which will benefit everyone.

With the rolling out of the GST from July 2017, taxpayers may breathe a sigh of relief as they will get rid from the requirement of multiple compliances under various statutes, as the proposed GST regime provides for a single registration and a single return. Consumers should pay a low rate of tax on goods and services. This may also lead to greater compliance by seller and even by consumers and the common practice of retailers and service providers offering consumers a choice of a printed bill i.e. "*pucca*" receipt or just an informal total that does not contain a tax component i.e. a "*kuchcha*" receipt, as the Prime Minister defined it, may well become a thing of the past, with "*pucca*" becoming the in thing.

As more products and services come under the ambit of tax net, lower income groups are likely to be most affected as 80% of their consumption basket comprises basics such as food, clothing and items of basic necessities- a challenge which the Government of the day will need to address in future. However, it can be said that in the coming future GST will emerge as a boon to the Indian economy.

(Endnotes)

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