Val II, Issue:VIII, Sept 2012
ISSN : 2230-7850

Indian Streams Research Journal

Impact Factor 0.2105

Monthly Multidisciplinary Research Journal

IMPACT FACTOR : 0.2105

Welcome to ISRJ

RNI MAHMUL/2011/38595 **ISSN No.2230-7850**

Indian Streams Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.isrj.net

Indian Streams Research Journal
Volume 2, Issue. 8, Sept 2012
ISSN:-2230-7850

Available online at www.isrj.net

ORIGINAL ARTICLE

"Goods and Services Tax Regime" -And Its Challenges.

Subrahmanya Bhat K.M[1] and I.Bhanu Murthy[2]

[1]Associate ,Professor,
Shree Damodar College of Commerce and Economics. Margao- Goa.
[2]Principal,
Shree Damodar College of Commerce and Economics.
Margao- Goa.
Email:skmbhat@yahoo.co.in

Abstract:

In Budget, speech 2010, Finance Minister stated that the country will be moving to the Goods and Services regime by 1st April 2011. The responsibility of preparing the road map for introduction of GST had been entrusted to the Empowered Committee. This paper analyzes the practical problems in implementation of GST. One should consider the various practical difficulties in proper implementation of GST. Some of the important aspects which needs to be considered for effective implementation of GST in India.

INTRODUCTION:

The principal indirect taxes levied in India are customs duties, excise duties, service tax, sales tax or VAT. Of these until the beginning of World War II customs duties had remained most important source of revenue. From the modest beginning 1994-95, service tax has grown into significant source of revenue. Empowered Committee (EC) of State Finance ministers in its meeting held on June 18, 2004, arrived at a broad consensus to introduce VAT from 1st April 2005.Accordingly VAT has been introduced at state level. Now all states have been adopted VAT system. Introduction of Goods and Services Tax will be an important milestone in the Indian history. The proposed Goods and Services Tax (GST) is not just a fiscal reform; it will also be the major economic reform of the century. The significance of proposed transition to Goods and Services Tax (GST) regime cannot be undermined. Projected by some as mother of all tax reforms of the century, GST is slated to change the very manner in which indirect taxes are levied and distributed among Indian states.

The GST is a simple broad-based form of taxation which will provide the requisite stimulus to the economy during economic slowdown worldwide and unified tax system is a necessary condition for a common market to exists, this permits free and unimpeded movement of goods and services across a federation, thus encouraging efficient regional specialization.

The GST is a tax on goods and services which is leviable on each point of sale or provision of service in which at the time of sale of goods or providing services, the seller or service provider can claim the input credit of tax which is paid while purchasing the goods or providing service. There is no distinction between taxable goods and taxable services and they are taxed till the goods or services reach to the consumer.

GST being a comprehensive tax, should prima facie subsumed all other indirect taxes such as

Please cite this Article as :Subrahmanya Bhat K.M[1] and I.Bhanu Murthy[2] , "Goods and Services Tax Regime" -And Its Challenges. : Indian Streams Research Journal (Sept. ; 2012)

Excise duty, Service tax, Central Sales Tax (CST), State-level Sales tax/ VAT, Octroi/ Entry tax, stamp duty, telecom license fees, turnover tax, tax on consumption or sale of electricity, taxes on transportation of goods and services, etc., thus avoiding multiple layers of taxations.

NEED FOR GST

The salient features of Goods and Services tax are as follows:-

i)Leads to uniformity in tax regime with only one or two tax rates across the supply chain as against multiple tax structure. Ensures uniform tax structure and replaces multi-point tax structure by having a single tax point for goods and services.
ii) Many products require inputs of both goods and services. Hence it is not economically viable to have separate tax for goods and services. GST provides a workable solution to this issue.
iii)Results in lower transaction cost for final consumers.
iv)Replaces the cascading 'tax on tax' effect created by existing indirect taxes.
v)Increases tax collections due to wide coverage of goods and services.
vi)Improves cost competitiveness of goods and services in the international market GST in International Scenario.

TAXATION STRUCTURE:-

The three structure of taxation will be,

i)CGST- Central Goods and Services Tax,
ii)SGST- State Goods and Services Tax,
iii)IGST- Inter State goods and Services Tax.

The CGST will be levied by the Union, SGST will be levied by the States and IGST will be collected and administered by the union on interstate movement of goods and services. Input tax credit of CGST will be allowed to be utilized only for payment of CGST similarly credit of SGST can be utilized only for payment of SGST.

RATE STRUCTURE.

There will be classification of goods for rate purposes as under;
For essential goods –Lower rate
General goods –Standard rate
Precious metals- Special rate
For export –Zero rate
Exemted items –separate list

Alcoholic and certain petroleum products will be out of the purview of GST and will be governed by the existing tax laws. Though there is no official announcement of GST rates, it is expected that goods of basic importance will be taxed at 8 to 12 percent, standard rate general goods will remain from 16 to 20 percent and rates for precious metals will be 1- 2 percent.

THRESHOLD LIMIT.

The Empowered committee has recommended that in the case of SGST, a threshold limit of 10Lakhs. This will leave the small traders from the compliance requirements of GST regime. In the case of CGST the limit suggested by the committee is 150 lakhs.

CHALLENGES IN IMPLEMENTATION OF GST.

Successful implementation of GST regime is a great challenge for Centre and States. Everybody in the political class agrees India must switch to the goods and services tax (GST) regime. Centre-state talks have been on for some time to fix GST's contours and modalities of implementation. Yet, as with most reform initiatives in India approaching launch date, petty politics seems to yet again play spoke in the wheel. As it is, states have demanded unreasonable concessions – including on rate structure, central sales tax's continuance and exemption for many items from under GST's ambit – that threaten to distort the purpose of indirect tax rationalization.

States must certainly be compensated for revenue loss in the post-launch span of adjustment. But blocking GST's debut suggests myopia, given the cascading gains for all stakeholders. Creating a seamless common market that trims transaction costs, GST will make business more profitable and competitive and tax evasion more difficult. Improving tax compliance, in turn, will boost state coffers, thereby reducing fiscal deficits and providing resources for social spending. Removal of tax multiplication will mean consumer-friendly product pricing, benefiting aam aadmi.

Replacing the existing Indirect Tax Structure by entirely a new model would pose a series of challenges like – Classification of taxable and exempt goods and services and deciding GST rate in line with the International Standards, Preparing the administrative machinery for levy and collection of GST , Simplified tax structures with clarity of Points of Tax and Tax Credits,Creating consumer and supplier awareness before introduction of the new system, Attaining high technical standards for implementation of GST model with the help of information technology and thereby reducing transaction cost.

The Major Challenges can be elaborated as follows:-

CONSTITUTIONAL AMENDMENTS

Constitutional amendments for levy of GST by both the Centre and States – Centre already in advanced stages of discussion. Presently Constitution empowers Centre to levy and collect income tax Custom duties Excise, Central Sales tax Service tax. Now as both Centre and States would get power to levy tax on goods and services, a constitutional amendment is required. Ratification by states required before assent by the President of India.

AGREEMENT ON GST RATES

Final rate with allocation between CGST & SGST not yet finalized. Finance Minister proposed a 3-rate structure for GST which will simplify the indirect tax regime – under which goods will attract 20% levy, services 16% essential items a concessional 12%. wherein both Centre and State would have an equal share. After initial protest, States are filing in line as Centre have agreed to compensate States for revenue losses consequent to the shift. However, a number of industries currently outside the indirect tax net could come within the purview of the GST. Single GST rate is desirable as multiple rates become source of complexity and disputes adding to the cost of tax administration and compliance.

IT INFRASTRUCTURE

IT infrastructure is a key component for success of GST .States as well as the Centre agreed to setup a clearing house to resolve tax collections and credits under the National Securities Depository Ltd (NSDL). The clearing house, a key part of the GST architecture, is expected to ease the creation of the common market, ensure that each state gets its share of revenue and also provide useful tax information to the authorities. The proposal envisages a standard electronic return. Centralized or integrated system integrating payments, refunds, returns and tracking of inter- state movement of goods and services – end to end tracking with proper re-conciliation and exception reports for enforcement agencies for assessment.

TRANSITION RULES–

Various questions in stakeholders minds how the existing input tax credit under the excise and the VAT laws will be allowed to be transitioned into the GST system - can SGST arising in the post-GST period be paid out of input tax credit of state VAT (i.e. relating to pre-GST period) & CGST out of Cenvat credit balance as on date of transition? Transition issues to shift from the litigation under the existing tax litigation system to the litigation system under the GST regime? Who would be the refund granting authority for any amount pre-deposited pending litigation under the pre-GST period but decision delivered in the post-GST regime?

The other issue will arise in treatment of financial services, insurance, banking, telecommunication, passenger and freight transportation from one state to another, etc – which are rendered and consumed in different states – Place of supply rules for purpose of taxability (similar to the one pertaining to export and import of services under the current service tax legislation) need to be defined elaborately which are not yet in place.

Dispute resolution mechanism

Challenges that will be faced for Tax litigation system. Unifying the tax litigation policies and processes under the GST regime .In a dispute over any transaction, will one have to file two appeals, i.e., one for state GST and the other for central GST? The answer may be even more complex in the case of inter-state transactions attracting integrated GST (IGST). The other difficulty that may arise is due to destination-based tax principle. Will it mean that the goods or services provider will have to file an appeal in the destination state over dispute arising on goods or services supplied by him.

ADVANCE RULING MECHANISM

There is a procedure in some states to obtain an order on determination of disputed question; in some states additionally, there exists an advance ruling mechanism. Excise and Customs advance ruling authorities are different from the VAT advance ruling authorities. Under the GST regime, whether these processes can be clubbed into a single, simple and standard appellate or advance ruling mechanism.

TRAINING AND AWARENESS AMONG STAKEHOLDERS

Various stakeholders in the new regime (i.e. Department officials, professionals, manufacturers, service providers, trade associations, etc.) would need to be trained on various provisions of new legislation. The contours of new law would appear to be complicated at the outset creating apprehensions about the new regime. Time required for shift – For companies, entire systems have to be amended, such as purchase orders and invoices and sales orders and invoices and the accounting systems also which needs time. Department officials would need training for enforcing compliances.

GST would be a landmark initiative which would kick start the next generation of reforms. All stakeholders would need to gear themselves for the regime.

What is the likelihood of the introduction of the GST by 1st April 2013,….. ? 1st April 2014………or kabhi ?

This is indeed a million dollar question today. Now, it seems quite clear that there is an agreement between the Centre and the states and across the political spectrum that the GST is a "must have" for India to grow its economy significantly from where it is today. Nobody, therefore, believes that we should not progress to a GST from what we have today by way of an indirect tax regime. The lack of agreement is with regard to the three discrete elements namely: the GST rates, the division of taxing powers between the Centre and the states and on certain design elements of the GST. There is simply too much at stake for the Centre, the states and the country to once again miss the bus, having missed it in April2012.

To conclude, it can be believed that despite the significant work that is yet to be done, there is a 100% chance that the GST would be introduced by April 2013.

1)M Govinda Rao , Tax Reforms in India Achievements and Challenges, Asia Pacific Development Journal, Vol. 7 No. 2, December, 2000.
2)Pillai, G.K. (2003). VAT- Problems and Prospects of Adopting Value Added Tax, Jaico Publishing House, Bombay.
3)Dr. Prakash M. Herekar ,Evaluation of impact of Goods and Service Tax (GST), India Streams Research Journal, Golden Research Thoughts Vol - I , ISSUE - XIII [February 2012]
4)Rajesh Kumar K Pillai,Transition To GST Regime, Chartered Secretary, October 2010